

**CONTRACTOR PURCHASING SYSTEM REVIEW**

**(CPSR)**

**TRAINING GUIDE**

02 Jan 1998

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## I. INTRODUCTION

A. The purpose of this CPSR Training Guide is to provide a “how-to” guide for personnel who may be required to perform a CPSR as well as providing background information for those personnel who use the information developed during a CPSR. The objective of a CPSR is to evaluate the efficiency and effectiveness with which the contractor spends Government funds and complies with government policy when subcontracting. The CPSR provides a basis for approving the contractor's purchasing system and allows the Contracting Officer to waive individual consent requirements for each subcontract.

B. It is not expected that an individual can become an expert on CPSRs simply by reading this Guide. This Guide should provide the detail procedures on how to perform a CPSR which meets the needs of the purchasing systems analysts who regularly perform CPSRs. Please note that this Guide is for reference only, is not directive in nature, and should not be used as a substitute for the relevant Federal Acquisition Regulation (FAR), DoD FAR Supplement (DFARS), and DCMC One Book policy guidance. Those who are not directly involved in conducting CPSRs, including contractors, will find that the CPSR Training Guide will help increase their understanding of the CPSR process.

C. The CPSR Training Guide should be used in training purchasing systems analysts, in seminars, for home study, and as a desk reference. It is expected that you will read this Guide, think about it, and re-read it as necessary.

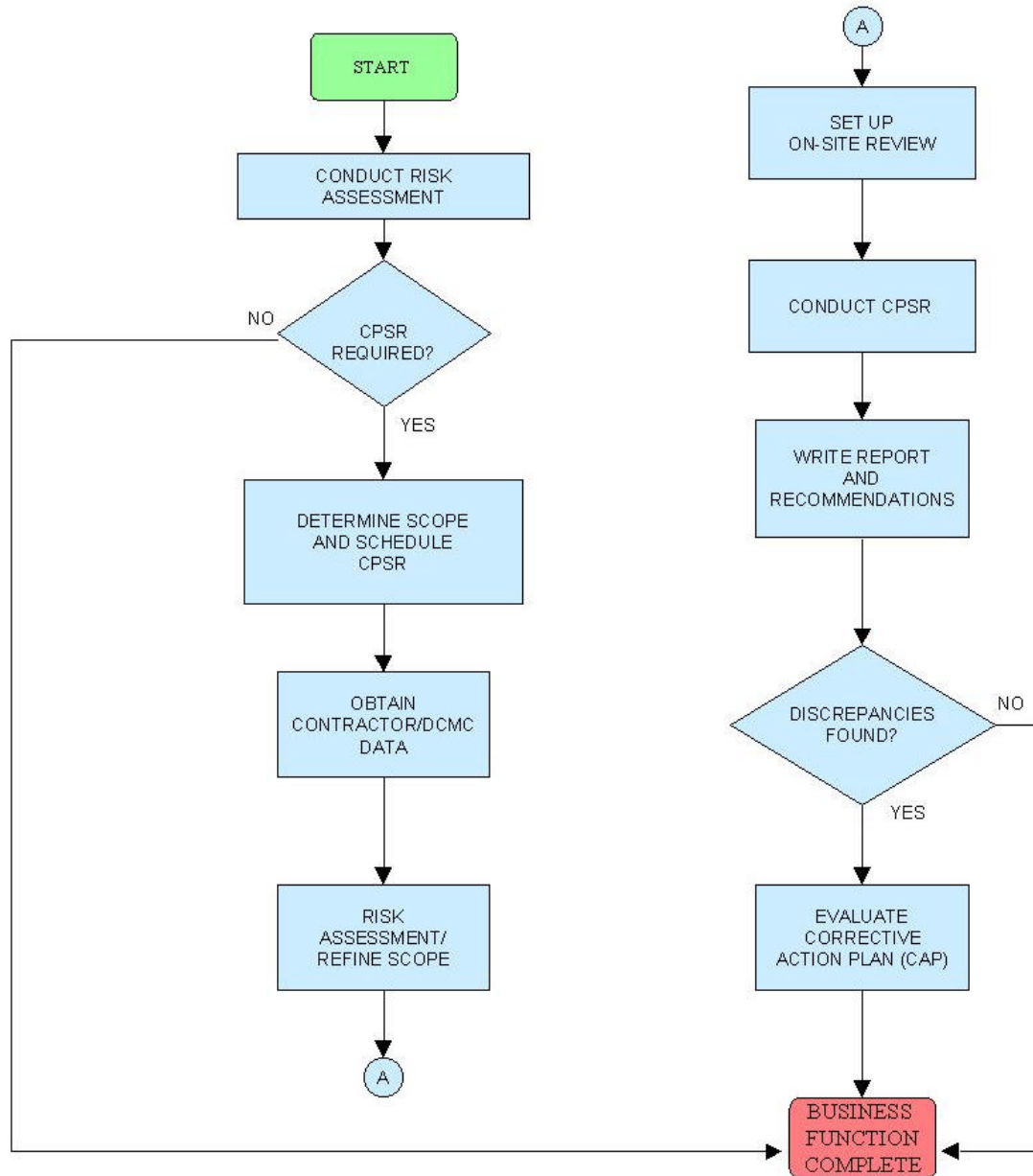
D. We encourage any suggestions to improve this CPSR Training Guide. Suggestions should be submitted through channels to:

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## II. Flow Chart

### Chapter 4.4.1 CONTRACTOR PURCHASING SYSTEM REVIEW (CPSR) November 1997



### III. CONDUCT INITIAL RISK ASSESSMENT (Sub-process C1)

A. The CPSR team leader will identify potential qualifying contractors for CPSRs. The primary sources for these requirements are contractors currently in the program, requests from contracting officers and requests from the District CPSR focal point. The CPSR team leader, in coordination with cognizant contracting officers, will conduct 2 sets of risk assessments, the first of which will determine the actual contractor work load requirements for CPSR's.

B. "Risk", as used in this context, means the Government's financial, quality and delivery exposure posed by contractor operations. The first step in conducting a risk assessment is to collect certain data pertaining to the contractors. The following factors have a bearing on the risk contractors' purchasing systems pose to the Government:

1. Approval status history.
2. CPSR recommendations and repeat recommendations to the contractor.
3. Dates of previous CPSR's and other reviews.
4. Government contract mix: cost-type, firm fixed-price, etc.
5. Direct material and material overhead as a percentage of total sales.
6. Sales to the Government as a percent of the contractor's total sales.
7. DCAA audit reports.
8. Input from the contracting officers and members of their CO teams.
9. Education, training, and experience of the contractor's purchasing personnel.
10. The contractor's self assessment and internal auditing efforts.
11. The contractor's relative position in its industry.
12. Reorganizations, mergers, and divestitures.
13. Radical increases or decreases in sales.

C. The following is a brief discussion of these factors:

1. **Approval status history.** For a new contractor where a CPSR has not been performed, there will be no approval status history. Where this data is available, review of it gives a good picture of our risk. Does the contractor have a history of having an approved purchasing system or does its history show a record of bouncing back and forth between approved and disapproved? Clearly, a contractor with a with a history of a repeatedly approved purchasing system poses a smaller risk than the contractor with a history of approval being withheld.

2. **CPSR recommendations and repeat recommendations to the contractor.** For contractors whose purchasing systems have been reviewed before, the number of recommendations and repeat recommendations, when viewed over time, gives an indication as to the direction the contractor is moving with its purchasing system. Of more importance is whether previous recommendations were major recommendations (high risk), or minor ones (low risk). A pattern of major recommendations (or repeat minors) is an indication of high risk. Minor recommendations that are not repeat recommendations may not pose much of a risk at all. Major recommendations pertain to compliance with public laws, and high cost practices, and others as may be determined by the contracting officer(s).

3. **Dates of previous CPSR's and other reviews.** This data lets you know how long a contractor has been in the CPSR program and how frequently it has been subjected to CPSR's. Alone, this information isn't particularly useful. However, coupled with other data, such as approval status, it is useful. Also, the longer the time span between CPSR's, the greater the risk that the contractor's purchasing system may have deteriorated. What other reviews have been made of the contractor's various systems? The results of a purchasing system reviews by other activities, for example, can add to your risk assessment.

4. **Government contract mix: cost-type, firm fixed-price, etc.** The contractor does not have the same incentive when performing on a cost type contract. CPSR's help reduce costs on cost reimbursement contracts, because contractors have little other incentive to control costs. CPSR's benefit firm fixed price (FFP) contracts differently. Although contractors (not the Government) save money on FFP contracts, the Government benefits later because contractors must base their follow on proposals on lower historical costs.

5. **Direct material and material overhead as a percentage of total sales.** . Some contractors, such as research and development and some service industries pose low risks to the Government because they purchase very little. Contracting officers may still request CPSR's, however, where purchasing systems are suspected of contributing to failures in other more important business systems. Contractors with large percentages of costs in direct material purchases will have high material overhead, as well. Any savings derived from conducting CPSR's will have a proportionately high return for the Government.

6. **Sales to the Government as a percent of the contractors total sales..** Contractors selling commercial products tend to be driven by the competitive marketplace towards cost effectiveness and efficiency. This may not apply, however, for contractors in sole source situations. Also, contractors whose sales to the Government are a relatively minor part of their total sales may be unaware of special Government requirements, or give their commercial customers undeserved preferences at the Government's expense.

7. **DCAA audit reports.** In addition to auditing costs, the DCAA auditor also audits some of the contractors systems, e.g., material management and accounting system (MMAS), and the estimating system. DCAA audit reports on such systems may indicate that they impact the purchasing system negatively, or vice versa.

8. **Input from the CO and other members of the CO's team.** Your primary source of information about a contractor is the ACO. The ACO is responsible for coordinating the efforts of all members of the field contract administration team and will be fully cognizant of the strengths and weaknesses of the contractor. All members of the ACO's team have important information that may affect your risk assessment; talk to them.

a. Does the contractor have a delinquency problem? If so, is it related to the purchasing system? Delays in processing material requisitions may delay the issuance of purchase orders.

Delays in obtaining quotations from prospective suppliers may delay the issuance of purchase orders and cause delivery delinquencies. Talk to the DCMC industrial specialist and engineer.

b. Does the contractor have a problem with meeting quality requirements of its Government contracts? If so, is it related to the purchasing system? Perhaps the quality requirements are not properly described in the purchase order to the supplier. Talk to the cognizant quality assurance specialist.

c. Does the contractor have a problem with its property control system? If so, does it relate to the purchasing system? For example, the Government contract may require the purchase of special tooling/special test equipment (ST/STE) that becomes the property of the Government. Does the purchase order make this clear, especially when the ST/STE will be in the possession of the supplier during the period of performance? Talk to the property administrator.

d. Does the contractor have a problem with other systems that impact the purchasing system? If so, are there any deficiencies that are due to, or cause, deficiencies in the purchasing system? Talk to the price/cost analyst.

**9. Education, training, and experience of the contractor's purchasing personnel.** This element is self-explanatory. The more capable staffs pose a smaller risk than the inexperienced, untrained staff. Also, note whether or not the contractor's purchasing personnel have experience in Government contracting.

**10. The contractor's self assessment and internal auditing efforts.** Some contractors perform self assessments and internal audits of their purchasing activity. A contractor who has an effective and aggressive self-assessment and/or internal auditing program will lessen the risk to the Government because the contractor is policing its own activities. Is the contractor participating in CRAG or some other PROCAS-type reviews? Often the contractor will share the results of its internal audit programs with the Government. To the extent you use the contractor's data/results; it must be validated.

**11. The contractor's relative position in its industry.** Is the contractor alone in its industry or is it one of many? Generally, a sole source contractor poses the greatest risk. The theory is that competition will drive the contractor to be more cost conscious in order to improve its share of the market. What is the contractor's position in its industry? Is it a leader or trying to catch-up? Is it well established in its industry or a newcomer? Industry leaders and well-established contractors generally pose a lesser risk than others do

**12. Reorganizations, mergers and divestitures.** Reorganizations, mergers, and divestitures can have an impact on a contractor's purchasing performance. Changes resulting from these activities can be expected but are not necessarily predictable. Purchasing personnel, policies, and procedures may be changed. New people may be brought in. Experienced people may be moved out or moved around. Purchasing policies and procedures may be changed. Morale may be affected in a positive or negative manner.



**13. Radical increases or decreases in sales.** These statistics are readily apparent. The impact of this kind of change isn't so apparent. It all depends on how the contractor responds to a radical change in sales. Radical increases in sales may overwhelm the contractor's purchasing personnel if they cannot respond to the increased purchasing activity in a timely manner. On the other hand, a radical decrease in sales may panic the contractor into layoffs that could affect purchasing. Moreover, contractors with rapidly declining sales may cut corners without studying the consequences.

D. There is no established scoring system that provides the right answer when performing this first risk assessment. To a large extent the evaluation of the collected data depends on judgment, yours, and that of the CO. You perform the risk assessment in coordination with the CO. There will be times when you will not have all the data discussed above. Successful risk assessments depend on your judgment and business acumen. Once you have assessed the risk, you are in a position to prioritize the workload. If you determine that a contractor poses such a small risk that a CPSR need not be performed in the current year, document the file and notify the CO. In order to manage the data required for risk assessment, it is recommended that the CPSR team leaders establish a computerized database and keep it current.

E. The fact that a contractor does not meet the threshold for a CPSR does not preclude performance of a CPSR. The ACO/PCO may request a CPSR on a contractor not meeting the threshold and we will be responsive to such requests. The priority you give such requests depends on the outcome of the risk assessment, the reasons for the requests, and coordination with the ACO/PCO.

#### IV. DEVELOPING THE CPSR SCHEDULE (Sub-process (C2))

A. Based upon the risk assessment conducted in III above, contractors have been identified as being eligible for a CPSR. The CPSR team leader should develop a tentative annual schedule for conducting reviews. Factors to be considered in developing the schedule include the type of review considered, i.e. initial review, following up on previous recommendations, tailored to specific CO concerns, etc. Also, consider the date contractor's approval was granted (if currently approved), whether PCO's are considering new awards, and other relevant factors.

B. The team leader will also determine the scope and duration of the reviews to be conducted and the resources needed, e.g., the number of PSA's to be assigned. The team leader should determine what other Government personnel may be required, and the role of contractor personnel on the team, or assisting. The existence of audit reports on other relevant processes will affect the team leader's estimate of the amount of time to be spent on-site.

C. When planning the schedule, the team leader should allow enough flexibility so that the schedule may be adjusted during the year. This may be due to contractors dropping out of the program due to a decrease in Government business, merging with other divisions, being purchased by another company, or new companies being identified as greater risk. We should also look at the following possibilities of coordinated audit planning and the sharing of audit information.

# 1. TECHNICAL INPUT - QUALITY ASSURANCE, PROGRAM INTEGRATOR, INDUSTRIAL SPECIALIST, AND ENGINEERING

## a. JOINT REVIEWS

### (1) DCAA

(a) When participating on CPSR teams, DCAA will be assigned the following topics, in order to utilize team member expertise in the most efficient manner and minimize disruption of contractor operations :

1 Material Estimating (usually they can extract information from existing Contractor Estimating System reports and flash audit records from individual prime contract proposal reviews)

2 Prompt payment discounts (DCAA auditors usually know contractor accounting personnel, and their record keeping systems and techniques)

3 Interdivisional transfers (contractors usually process purchases from other corporate segments in the Accounting Department with which DCAA auditors are familiar)

(b) CPSR teams should request copies of any DCAA operations audits which may be relevant to the purchasing system (e.g., MMAS, inventory control, estimating system review, etc.). CPSR teams may also reduce DCAA on-site audits by sharing CPSR work papers with auditors planning to conduct internal control system audits. When requesting background data from contractors in preparation for CPSRs, team captains should accept copies of similar data submitted to other review or audit teams (such as DCAA) if they contain current information.

### (2) TECHNICAL SPECIALISTS

(a) Technical specialists should be requested to contribute to CPSRs in their assigned areas, with no duplication of effort.

(b) In order to minimize disruption of contractor operations, CPSR team captains should request submission of excerpts from existing recent records held at CAO locations, ~~if they are recent~~.

(c) CPSR team captains should give any contractor self audit reports to the appropriate technical specialist for validation, which will satisfy the input requirement.

### (3) CONTRACTORS

(a) CPSR Review specific, CPSR team captains should request contractor self evaluation of the following processes (usually requested in background data requests forwarded through ACOs prior to on-site visits).

1 Standard purchasing and subcontract terms and conditions. Contractor legal counsel should review these clauses and certify that they are acceptable for use with the current FAR requirements. Contractor legal counsel should cite any changes that need to be made, and certify that the clauses will be acceptable upon their revision. Some companies contract out for legal support, and certification from these attorneys is acceptable.

2 Standardization program

3 Value analysis/value engineering program

4 Make-or-buy policies and procedures

5 Major subcontract administration

6 Contractor organization for purchasing

7 Purchasing policies and procedures

8 Purchasing reports to higher management

9 Purchasing cost saving reporting

10 Supplier evaluation and rating methods

11 Advance purchase planning

12 Purchasing from sources restricted by the Government

13 Comparative sales and purchasing data

14 Implementation of corrective action on previously identified deficiencies, and

15 Any deterioration in the purchasing system since the last CPSR, and corrective action taken to date.

(b) **Coordinated audits.** Team captains should also invite contractors to increase their participation, either as full team members, or to some lesser degree, as seen fit by contractor management (e.g., share internal audit reports, conduct joint and coordinated audits, etc.). To ensure objectivity, contractor participants should be internal audit personnel, or otherwise outside the materiel/purchasing span of control. CPSR teams should not duplicate the efforts of its contractor team members, except as may be necessary to validate findings. CPSR teams may provide copies of current work paper documents to contractor team members, and accept from them contractor work papers. The degree of contractor participation should not be a factor in the ACO's decision to grant purchasing system approval.

(c) **Self Governance.** Contractors may increase their participation in CPSRs by volunteering to participate in CRAG Part 5, Purchasing. DCMC recognized CRAG as an element of PROCAS. This option is not appropriate for first time contractors because there would be no Government base line to use in the validation process. Contractors may submit their CRAG reports reports to their ACOs at any time. When ACOs and CPSR team leaders conduct their risk assessments, they will use them to determine the scope of validation necessary, the scope of the overall review, and the desired degree of contractor involvement for the next review.

1 Taking the lead role, a contractor should notify its ACO of its intention to participate in CRAG Part 5.

2 The contractor meets with its cognizant CPSR team leader to establish the ground rules under which they will work.

3 The contractor should reduce to writing its internal audit plan for conducting its own CPSR on itself (covering all the processes delineated in this training guide, and then request CPSR team agreement with and ACO approval of the plan.

4 The contractor should conduct its own jCPSR in accordance with its Government approved plan, write its report covering all the required processes, and submit it to the ACO for validation.

5 Contractor internal auditors must obtain the cooperation of all company departments to correct purchasing system deficiencies, not just the purchasing and materiel departments.

6 ACOs should request CPSR teams to validate the contractor's findings, and to review any omitted processes specified in this guide, indicated by a risk assessment or negotiated with the customer.

7 CACOs and DCEs have authority to resolve problems related to conflicting CRAG Part 5 practices at different sites.

8 Where agencies outside DoD (NASA, etc.) have significant sales, PCO agreement should be sought before ACOs and contractors agree to implement CRAG Part 5.

9 ACOs should reject contractor requests to spread out their CRAG CPSRs over a year's time to avoid work load peaks and valleys. Such requests indicate that the materiel department personnel will review their own department, calling into question their objectivity. Granting such a request would also decrease the confidence level of the purchase order sampling process, complicate validation of findings, and provide ACOs with non-current information on which to base their system approval decisions.

(d) **PROCAS Metrics.** Many companies use health indicators and metrics to measure and report performance against predetermined tolerance levels. Such indicators are acceptable means for contractors to demonstrate effective purchasing systems, and to justify the continuance of purchasing system approval. They may not be used, however, to waive a risk assessments. Contractors should take the lead in establishing and reporting their metrics to the local CAO. CPSR teams should assist ACOs and these contractors to select the most important health indicators, and to evaluate the resulting metrics reports. There should be a zero tolerance level for noncompliance with public laws. ACOs should request CPSR teams to review any out of tolerance conditions to validate the contractor's findings and conclusions, and or determine whether withdrawing purchasing system approval is warranted to protect the Government's interests.

1 The most important indicators for most contractor metrics would be the following:

a Maximizing the incidence of competitive subcontracting (including price and other factors),

b Justifying and documenting the need for legitimate single and sole source purchases,

c Obtaining cost or pricing data and information other than cost or pricing data from prospective subcontractors and flowing down the correct FAR clauses to awardees,

d Performing effective cost analyses of cost data,

e Obtaining cost accounting standards disclosure statements or valid exemption forms, and flowing down correct FAR clauses,

f Performing effective price analyses of supplier quotations and proposals,

g Performing effective negotiation with potential suppliers,

h Providing advance notification to the contracting officer of intent to subcontract, and obtain ACO consent prior to award,

i Definitizing letter subcontracts within 180 days or before 40% of the work is completed,

j Maximizing on-time supplier deliveries to protect prime contract schedules, and

k Maintaining a satisfactory small business program rating.

2 Despite emphasis on teaming in PROCAS, CPSR teams should not recommend, and ACOs should not grant, "get well" periods to reward cooperating contractors. Get well periods...

a Prevent the ACO from reviewing subcontracts in the "consent" process which otherwise enables them to protect the Government's interests.

b Encourage other contractors to seek equal treatment, or to protest unequal treatment.

c Mislead PCOs as to the health of the purchasing system.

d Encourage contractors to seek special treatment rather than to take immediate corrective action.

e System approval should not be withheld, on the other hand, when a contractor has identified system deficiencies and taken proven corrective action prior to the on-site visit.

#### (4) CUSTOMERS

CPSR teams should request, through the ACO if appropriate, participation by buying office personnel on CPSR teams. Teams may also negotiate with customers to coordinate their own reviews with CPSRs, such as production readiness reviews, in order that relevant data may be shared with minimum inconvenience to the contractor.

#### (5) PRIME CONTROL OF SUBCONTRACTOR REVIEWS (PCSRs or PCOSs)

(a) CPSR teams and CAO personnel who perform PCSRs should coordinate their schedules to minimize disruption to contractor operations, and to ensure that no duplication of

effort occurs. Although the criteria and frequency of these reviews differs, successful coordination eliminates significant review preparation cost for contractors.

(b) In the absence of a coordinated effort, CAO personnel should provide copies of their most recent QDRs and progress reports to the CPSR team, or extract relevant information from their existing records, if possible. Although CPSR reports may describe deficiencies repeated in existing PCSR reports, they should not duplicate recommendations already made to the contractor through the ACO. Quality assurance deficiencies wholly unrelated to the purchasing system should not be factors in the purchasing system approval decision.

#### (6) SUBCONTRACTING MANAGEMENT

CPSR teams should respond to requests for assistance from engineers and program managers who may need general purchasing system status or information to develop project-specific subcontracting information. CPSR teams should inquire with these personnel as to any project-specific information they may have which would be helpful in planning CPSR reviews.

#### (7) SMALL BUSINESS COMPLIANCE REVIEWS

Schedules should be shared between CPSR teams and the cognizant CAO small business office in facilitate coordinated reviews. Where schedules do not match, copies of the most recent compliance reviews should be requested. CPSR teams may negotiate with SADBUs on what information to provide which might be helpful for them (degree of competition, outreach efforts) in determining a small business program rating.

#### (8) PERFORMANCE ASSESSMENT REVIEWS (PARs) (by HQ DCMC)

If a CPSR has been performed within the previous 6 months, CPSR teams should provide their most recent CPSR report to PAR teams. If the next CPSR is scheduled for the next 6 months, the CPSR should be advanced to coincide with the PAR. For other PAR reviews, the CPSR team cognizant of the participating contractor will supply a team member to the PAR team for subcontracting, a practice which ensures coordination and continuity when the next CPSR team follows up on contractor corrective action. Rather than to duplicate work, CPSR personnel participating on PAR teams should use the data they collect to produce all, or part of any, CPSR reports requested by customers soon thereafter.

## V. OBTAIN CONTRACTOR/GOVERNMENT DATA (Sub-process (C3))

### **A. Timeframes**

1. For reviews conducted for DCMDI the requests for data should be forwarded to the CO at least 90 days prior to the start of the review to allow for translation of the documents.
2. For reviews in the CONUS the request for data should be forwarded to the CO 45 to 60 days prior to the start of the review.

### **B. Information Needed**

1. Data to be Obtained from the contractor:(select that which is relevant to the scope of the review.)
  - a. It is the responsibility of the team captain to accumulate all of the information required. At the start of its on-site review, the team should have the following material:
    - (1) Copies of the contractor's organization chart(s), showing the corporate management structure, down to at least the procurement department-head level.
    - (2) Copies of the contractor's procurement organization chart down to at least the first level of supervision. Either the chart itself or an accompanying table should show the number and job classification (or assignment) of personnel reporting to each first-level and higher tier supervisor.
    - (3) Copies of the contractor's procurement policy statement(s).
    - (4) Copies of the contractor's procurement procedures.
    - (5) Copies of all important procurement forms.
    - (6) Summary of purchasing activity for the contractor's most recently completed fiscal year and current year to date. The summary should show information such as dollar value of purchase, number of purchase orders placed, number and dollar value of purchase orders placed with small and large business concerns, number and dollar value of purchase orders and/or subcontracts in the following dollar categories: -under \$25,000; -\$25,000-\$100,000; - \$100,000-\$500,000; -over \$500,000.

(7) Summary of Government sales volume, broken down by contract types as follows:

	PRIOR YEAR	CURRENT YEAR	ESTIMATE FOR NEXT YEAR
FFP and FPEPA			
Other Type			
(Cost, Incentive, etc.)			
TOTAL	_____	_____	_____

(8) List of major open contracts (prime and subcontract) as of a selected cut off date, broken out by project name or description, face value, and Unliquidated Obligation (ULO).

(9) List of major subcontracts issued and/or high-dollar purchase orders currently outstanding with an open balance of \$25,000 or more as of cut off date showing vendor, item being procured, type of contract, dollar amount of face value, and ULO.

(10) Copies of management reports such as shortage reports, weekly or monthly workload and work backlog reports, scrap/salvage reports, and repetitive reports to company management and/or the Government.

(11) List of affiliates, autonomous or semiautonomous departments, and divisions indicating total amount of business awarded to each during current year.

## 2.. Information to be Obtained from Other Government Sources

a. The CPSR team supervisor should determine the extent of data that will be needed from other Government sources and send out the request letters at the same time as the letter requesting the data from the contractor.

b. The sources of information to be considered are Quality, Engineering, Production, Property, Small Business, Legal, Transportation, Packaging, and DCAA associates.

C. The CPSR team leader prepares a letter requesting the contractor to accumulate its information. The letter should be available for transmittal following initial notification and is normally addressed to the chief executive officer of the company. The team captain should discuss the information called for in the letter with the contractor and appropriate CAO officials. The CPSR team leader should also prepare letters requesting information from other Government sources that have been identified in the above section.

D. Examples of letters and information to be obtained from the contractor and other Government sources are found in Appendix F.



## VI. REFINE THE SCOPE OF THE REVIEW (Sub-process (C4))

### A. **Review of Available Data.**

When performing the second risk assessment of potential contractors that are candidates for review, the CPSR team leader and team captain should consider the following:

1. Contractor sales data including the number of subcontracts issued to subcontractors during the review period.
2. Contractor's internal audits conducted prior to the scheduled review.
3. Customer input from ACOs, PCOs, and other cognizant Government personnel (e.g., Industrial Specialist, Quality Assurance Specialist, and Small Business Specialist).
4. Reports generated under Process Oriented Contract Administration Services (PROCAS), Contractor Risk Assessment Guide (CRAG), Performance Assessment Review (PAR), or other applicable reviews.
5. The last CPSR report.
6. Any DCAA audits that impact the purchasing system that were conducted since the previous CPSR, or if it is an initial review, audits conducted over the previous 12 months.
7. Any reports issued by the General Accounting Office (GAO), Inspector General (IG), Defense Criminal Investigative Services (DCIS), or other applicable investigative/audit reports, that could impact the purchasing system.

### B. **Assessing the Degree of Risk.**

1. After review of all the available data/information, the CPSR team leader/captain, in conjunction with the customer, should determine the scope of the review if a review is still warranted.
2. Once the contractor's purchasing system has been approved, a subsequent review may be necessary when:
  - a. Changes in management, organization, or purchasing policies or practices are generally so extensive that they raise a reasonable doubt as to the level of confidence that may be placed in the purchasing system. For example, there has been a change in the top management of the purchasing department, or the purchasing department has been placed under the authority of the engineering department.
  - b. The contractor's business operations, or the nature of its purchasing activities, has changed in ways that might affect the purchasing system. For example, declining workload may

have caused personnel reductions. Another example, if a contractor who previously handled only component production now takes on system-management obligations.

c. Surveillance or investigations by another agency have identified weaknesses in the contractor's purchasing system. If, for example, observations by the CO, GAO, IG, or other agencies reveal a failure to adequately justify single and sole source purchases, or perform price/cost analysis, a review to ascertain the causes of the trend may be in order.

d. The CO may withdraw approval without a review if there is evidence of a sudden or obvious deterioration in a contractor's purchasing system.

#### C. Determine Additional Technical Assistance

If, after review of all available data, additional technical assistance is necessary the team captain will contact the appropriate technical personnel with the request.

#### D. Finalize the Scope of the Review

1. Having decided that a review is necessary, the team captain, in conjunction with the customer, must determine the depth and scope of the review to be made.

a. In most cases, an initial review should constitute a complete appraisal of the contractor's purchasing system.

b. Late reviews may, if considered appropriate, constitute a complete appraisal of the contractor's purchasing system or be limited to those areas that the customer and the team captain determine necessary for adequate system analysis. Some circumstances that should be considered when determining the extent of the review would be if the past review resulted in withholding or withdrawing system approval, a major change in the contractor's purchasing organization takes place, the contractor has been awarded a prime contract involving system management responsibility, or the contractor has no contracts that require production deliveries. Any new responsibility that affects the contractor's purchasing organization and its coordination with other departments would be a situation where the CO would want to assure themselves that the contractor's purchasing system was adequate for the purpose of dealing with the new responsibilities.

c. When a complete appraisal is not required, the review would be limited to those areas that have been identified as an area of weakness or of special interest/importance. For example, a GAO or IG report may indicate the need for a review limited to the particular area(s) under criticism. Similarly, if a deterioration in part of the contractor's system is discovered, such as in the performance of price/cost analysis or single/sole source justifications, only a review of those particular areas of the contractor's purchasing activities may be necessary.

## **2. Assignment of Resources**

### **a. Personnel**

(1) With the scope of the review decided upon, the CPSR team leader/captain must determine what resources will be needed to accomplish the review. The decision on how many PSAs will be needed and the length of on-site review time should be based on the type of review planned and the areas that will be included in the review.

(2) The CPSR team supervisors should give consideration to the background and skills of the team members. A versatile team will be able to take a broad view of the contractor's operations and appropriately distribute emphasis.

### **b. Funding**

(1) Requests for CPSRs on contractors under DCMC cognizance that meet the criteria for a CPSR will be provided to any Government activity upon request at no cost to the recipient, including those requested by DCMD International .

(2) Requests from DoD activities for CPSRs on contractors not under DCMC cognizance will be honored when manpower is available, with per diem and travel costs provided by the requesting activity.

(3) Requests from non-DoD activities for CPSRs will be honored on a reimbursable basis.

## **3. Identification of Divisions Included in the Review**

If the contractor's purchasing system covers multiple locations, then the CO, the CPSR team leader, and team captain, need to determine which locations will be included in the review. If assistance is required from another CAO's CPSR team, a formal request will be sent to the appropriate CAO. The assisting CAO should be informed if its efforts should be billed for reimbursement.

## **VII. ARRANGE ON-SITE REVIEW (Sub-process C5)**

A. After the scope of the CPSR has been determined, planning the actual effort will begin. The following tables provide a general guide to the extent and type of planning activities required:

## **INITIAL/INDEPTH CONTRACTOR PURCHASING SYSTEM REVIEW**

<u>TIME LINE</u>	<u>TASK</u>
6-8 weeks prior to scheduled start of the on-site visit	Contact ACO, and team members to reconfirm review dates, arrange logistics.
4-6 weeks prior to scheduled Start of the on-site visit	Mail request for data to the contractor and the other Government specialists
2-4 weeks prior to scheduled on-site visit	Team captain receives list of purchase orders and selects sample
1 week prior to scheduled on-site visit	Team captain reviews all data received from the contractor and the Government specialists and prepares entrance conference notes and arranges meetings as necessary.

### **LATER REVIEWS**

<u>No. Of Weeks</u>	<u>Interval</u>	<u>Task</u>
2-4 Weeks	2-4 weeks prior to scheduled on-site visit	Team captain determines which steps are required to accomplish the review
1 Week	1 week prior to on-site visit	Team captain selects sample, if necessary, and prepares entrance conference notes

### **B. Adequate Working Space**

A room adjacent to, or close by, the purchasing department should be provided to serve as the team's on-site location. Normally contractors provide CPSR teams with hard copy purchase order folders that it used in its own internal approval cycle, supplemented with working folders if they are requested. Therefore, the team's working room should contain enough tables or desks to seat all the members and to permit them to spread out the folders they will be reviewing. The room should be large enough to hold interviews of contractor personnel. It should have electrical outlets for the laptop or notebook computers used to evaluate the purchase order/subcontract folders. A file cabinet that can be locked at night should also be provided to protect the folders and the computer equipment if the room is not lockable. If the room is locked at night, the contractor should ensure that the room is open during the team's working hours. The contractor should also be requested to provide the CPSR team with parking spaces near its work location..

### **C. Overall Administration**

The team captain will serve as the overall administrative chief for the team, coordinating its efforts with those of the contract administration offices. Responsibilities will include arranging meeting times and places, determining any special facilities needed and assuring the security of all the material made available to the team during the review. The team captain may delegate any of these administrative duties as necessary.

#### **D. Security**

1. Restricted access to a contractor's facility will slow the progress of the CPSR team. When required, it is recommended that the team captain arrange with the contractor to have nonescort badges available to the CPSR team members from the first day of the on-site review. Any Government property (e.g., laptop computers) brought into the contractor's facility may require registration with the contractor's security office. The team captain should inquire about this, and restrictions on removing audit records from the plant, before starting the on-site review.

2. When planning a review in a foreign country, it is necessary to request and obtain country clearance. The required procedures are somewhat unique to each country. Guidelines are published in the DoD Foreign Clearance Guide, DoD 4500.54G. Country clearance usually serves as security clearance to enter the contractor's facility allowing the team members access to relevant production plants as well as administrative offices. It will not always be required, but it is recommended that CPSR analysts frequently traveling abroad on business obtain a Government passport.

### **VIII. CONDUCT CPSR (Sub-process C6)**

#### **A. Conduct Pre-Review Meeting (Government Personnel Only)**

1. On the first day of the on-site visit, the team captain should hold a meeting with all the members of the team including the CO, buying office representatives and DCAA. At this meeting, the team captain should state the plan for the review. If not done earlier, the team captain should announce the assignments of the team members and define their responsibilities for writing draft report paragraphs covering their respective topic areas. The extent of the contractor's participation in the review should be described.

2. Government personnel should be invited to share with the team any purchasing system-related reviews and audits, such as HQ DCMC PAR reviews, operations audits, property system surveys, MMAS audits, etc., which may have been conducted during the previous 12 months, which may enable the team to forego duplicative effort.

3. The CAO commander, deputy, or CO should be requested to describe briefly the contractor's major programs, where the work is performed, whether there is significant research and development work, and the contractor's general attitude toward the impending review. The CO should inform the team of specific topic areas of concern. This meeting should establish who will attend the entrance conference and who will speak for the Government on the various

aspects of the review. The Memorandums of Agreement between DCMDI and the CONUS CPSR Districts should be reviewed in detail before meeting the overseas contractors.

#### **B. Conduct Entrance Conference with Contractor**

1. The captain should open the conference by introducing the Government attendees, beginning with the CAO commander, the deputy commander, the CO, etc., down the chain of command. If the contractor personnel in attendance are not familiar with CPSRs, the team captain should explain CPSRs and the benefits accruing to both the Government and industry. At all conferences, the team captain must explain the extent of the review to be undertaken, the purchasing system sub-processes most important to gaining system approval, and the timing of events. Inform the contractor that only the ACC will give official directions.

2. The contractor may agree to provide a briefing on the purchasing system at the entrance conference. The contractor may also offer to conduct a plant tour.

#### **C. Review Policies, Procedures and Forms.**

The team's first task is to review the contractors policies, procedures, and forms in order to know how the purchasing system should operate. The team should compare the contractor's policies, procedures and forms with the list at Appendix C which is common to most defense contractors.

#### **D. Review Random Sample of Purchase Orders and Subcontracts.**

1. Once the team has familiarized itself with the policies, procedures and forms, the team should analyze the selected sample of purchase order folders drawn randomly from the contractor's files. The team will normally review the purchase orders using CPSR software. DLA Form 604, or equal, may be used where ADPE may not be appropriate. If one or more members of the team use the hard copy form, the data may be computed manually and entered into CPSR software upon return to the duty station. The CPSR model software and/or DLA Form may be provided to contractor and outside agency personnel to use during joint audits or when they participate in CPSRs, however the model software shall be returned to the team at the conclusion of the review.

2. For contractors who have "paperless" systems and/or keep records in an automated storage system, CPSR personnel must access the records in the medium used by company personnel. The team must also determine the integrity of the contractor's methods for authenticating internal approval signatures and vendor certifications in automated systems. Unless FAR or the contracting officer require originals, CPSR teams will consider as acceptable, vendor certifications, proposals, etc., in facsimile form.

3. The team captain, in consultation with the contractor's liaison, should determine whether to ask questions as they come up in the purchase order review, or to save them to ask several at one time. Any apparent deficiencies should be verified through interviews with the buyers or

liaison personnel before final judgement. If deficiencies relate to contract clause compliance, the team should check the contractor's copy of the prime contract to verify applicability.

4. Team members must conduct their interviews in an objective manner, inviting contractor personnel to be frank and forthcoming with information. In many cases, CPSR teams educate new buyers by virtue of their questions and explanations of Government policy. Care must be taken, however, not to direct contractor personnel to take specific actions which may incur constructive change problems for the customer. Team members should not criticize company management or discuss possible legal violations (e.g., acceptance of subcontractor kickbacks) in the presence of other contractor personnel.

5. CPSR teams will custom tailor the sample size of purchase orders and subcontracts where contractors conduct their own internal audits, including CRAG Part 5, or a PROCAS type teaming arrangement. CPSR teams will sample purchase orders reviewed by the contractor, and a percentage of purchase orders not included in the contractor's sample. This will provide confidence that the contractor's sample is representative of the universe.

6. If CPSR personnel are participating in a Performance Assessment Review (PAR) with the DCMC PAR team, the analysts should be prepared to complete individual analysis sheets for each deficiency and improvable process uncovered. The PAR team captain has authority to direct CPSR personnel during the PAR review. Only one report should be prepared that will satisfy both PAR and CPSR/CO requirements.

## 7. CHECKLIST OF QUESTIONS TO ASK AND EXPLANATIONS DURING DATA GATHERING AND ANALYSIS

### a. Topics Included in All Reports

#### (1) PUBLIC LAWS

(a) PUBLIC LAW 87-653, "TRUTH IN NEGOTIATIONS"

- 1 Does the contractor follow the criteria of FAR 15.403-1(c) for "adequate price competition" if the exemption to PL 87-653 is to be granted, i.e., and
- a although the contractor's policy may be to negotiate with the low bidder, the contractor must be able to award without additional price or cost analysis, or
  - b the item purchased must qualify as a commercial item or near commercial item under FASA?

NOTE: A waiver of prime contract cost or pricing data granted by the Head of Contracting Activity (HCA) under FASA, does not waive cost or pricing data for subcontractors.

2 Does the contractor attempt adequate price competition for follow on purchases, not only to see if other suppliers may have made technical advances to lower their prices, but to prevent the existing supplier from raising prices unnecessarily?

3 Where there is no adequate price competition, did buyers obtain SF 1411s with supporting, or identified, data (price bills of material, past actuals of labor hours, estimates on total plant direct labor hours, etc.) in all cases prior to subcontract award or agreement on price for purchases exceeding \$100,000 or \$500,000, and which were not

- a competitive,
- b "based on adequate price competition" through similarity to recent competitive purchases for comparable items, quantities and prices,
- c "based on prices of commercial items"
- d market priced items, (e.g., wheat, cotton, & gold)
- e prices set by law or regulation? If no,
  - i Were the orders without cost data for capital items, overhead purchases, commercial sales? or
  - ii Had the buyer combined requisitions for more than one Government contract issued before 15 Dec 91, and no one contract amount exceeded \$100,000, or
  - iii Was the prime contract issued between 1 Dec 81 through 1 Apr 85 when the legal threshold was \$500,000? or
  - iv Did the contractor buy to an inventory account, as is common in MRP systems, such that the material does not belong to the Government until removed from inventory by a production line requisition? or
  - v Did the contractor purchase the material with its own FFP funds on risk of loss, in anticipation of a future Government contract? or
  - vi Did the Contracts Department obtain the cost data at proposal time for the prime contract, and submit it to the PCO with its own cost proposal, and Purchasing is not required to obtain another set of the data? or
  - vii Is the customer's contract either a "sealed bid" (formally advertised) Government prime or a first tier subcontract from another contractor who did not place the "Subcontractor Cost or Pricing Data" clause therein? or
  - viii Is the item listed on the GSA schedule, in which case cost or



pricing data was waived either by the PCO at prime contract negotiation time, or by the ACO during advance notification and consent, or did the contractor request the ACO or PCO for a special waiver based on a FAR exemption?

4 Was supporting data for the SF 1411 not submitted, but instead specifically identified in writing by the bidder, including the address, building, room and file cabinet?

5 If the data was specifically identified, did the buyer make a plant visit to examine the data?

6 Did buyers request and receive updated cost or pricing data before negotiations, if necessary?

7 Did buyers obtain properly executed Certificates of Current Cost or Pricing Data prior to subcontract award or after agreement on price, including a second Certificate if the vendor submitted one mistakenly with its proposal?

8 Did buyers consider all negotiated line items together (if awarded under a single prime contract), even if awarded on separate purchase order documents, when determining whether this public law applied?

9 If the contractor's computer system only permits one line item per purchase order document, did the buyer obtain one set of cost data and one certificate for all purchase orders resulting from the one negotiation session?

10 Did buyers try to split awards to avoid complying with this public law?

11 Did buyers make valid determinations on bidder claims of commercial items in order to establish exemption from this public law? If no,

12 Did the contractor comply with the FAR implementation,

a by using the latest Certificate given therein in order to ensure that the proper clause references are shown to bind the subcontractor to its cost data submission,

b requiring vendor to identify by date and submission number, which cost data the Certificate covered?

c by using the SF1411 in order to obtain data required by FAR?

d by placing FAR clauses 52.215-24 and -25 in applicable subcontracts?

13 Do buyers ensure that supplemental cost data is so identified and specifically cited in any certificates of current cost or pricing data, such that defective cost or pricing data cases can be pursued if necessary?

(b) ACO CONSENT, ADVANCE NOTIFICATION (10 US Code 2306(e))

1 If the Contracts Dept. has authority to notify the contracting officer of subcontract award, does Purchasing provide Contracts with the appropriate information in a timely fashion?

2 If Purchasing has that authority, did it notify the contracting officer in a timely fashion?

3 Was consent waived, to the extent allowed, since the last CPSR due to ACO approval of the purchasing system? If no, go to question e. below.

4 Under cost type primes, did the contractor avoid the common mistake of believing that waiver of consent also waived notification under the "Subcontracts" clause?

5 Did the contractor notify the contracting officer and wait for consent in all cases not waived?

6 Did buyers submit all the data items required by this clause with their notifications?

7 Were all ratifications (after the fact consents) by contracting officers justified, in that the contractor's late requests were unavoidable, justified, or approved by the contracting officer ahead of time?

8 For any consultant agreements qualifying as subcontracts included in the sample, did the contractor comply with the notification and consent requirements of the prime contract for labor hour subcontracts? If no,

a Was there a special "Use of Consultants" clause in the prime contract with different notification requirements that were complied with?

9 For letter subcontracts, did the contractor provide as much data as possible with the notification and follow up with the remainder at the time of definitization?

10 Did the contractor resubmit subcontract consent requests when subcontractors decided to submit counter offers or to otherwise alter the normal terms and conditions?

11 If the prime contract is for Dept. of Energy, is there a "Contractor Procurement" clause which overrides provisions of the FAR "Subcontracts" clauses, and did the contractor comply therewith?

12 If an A&E or construction contractor, did the contractor notify the ACO of awards of consultants?

13 Did the contractor need to provide notification or obtain consent for any other purpose, such as notification 30 days in advance for purchase of special test equipment?

(3) PUBLIC LAW 100-679 (PL91-379), "COST ACCOUNTING STANDARDS"

[numbering corrected](a) Do the contractor's solicitation provisions include all of the appropriate clauses and certifications to secure compliance by bidders with CAS bidding procedures?

(b) Did buyers obtain appropriate signed certificates, small business claims or disclosure statements in all applicable cases over \$500,000 (or \$100,000 for prime contracts issued prior to 17 April 1992)?

(c) Did buyers place the appropriate CAS clauses in their applicable subcontracts, deleting the disputes para. (b)?

(d) If the "Disclosure and Consistency" CAS clause was applicable, such as in subcontracts with foreign suppliers, was it also placed in appropriate subcontracts?

(e) When determining the applicability of CAS, did buyers include all negotiated line items, even if awarded on separate purchase orders for administrative convenience?

(f) Did buyers wrongly split awards to bring PO dollar values below the dollar threshold in FAR in an effort to avoid complying with CAS flowdown?

(g) If the subcontractor was a firm in the United Kingdom, did the buyer place the -4 clause in the subcontract?

(h) Did buyers place the "Administration of CAS" clause, FAR 52.230-5 in all subcontracts containing the -2,-3 and -4 clauses?

(i) Did buyers correctly include the CAS clauses in subcontracts even though vendors did not need to submit disclosure statements due their submission of "Monetary Exemption" certifications?

(j) In order to minimize administrative costs, did buyers correctly exclude CAS from all subcontracts with suppliers exempt by FAR 30.201-1(b), especially

1 FFP subcontracts where certified cost or pricing data was not obtained or used in the pricing of the award?

2 from subcontracts with small businesses?

(k) Did buyers notify the contracting officer within 30 days after award of CAS covered subcontracts, together with all the information required by the Administration of CAS clause?

(l) Did buyers keep certifications of "Additional CAS Standards Applicable to Existing Contracts" in file for future reference and use?

(m) In the case of two purchases under a single prime contract, awarded weeks or months apart, did the buyer correctly obtain separate and distinct CAS disclosure statements or certifications, and otherwise comply with the CAS clause?

## (2) PRICE ANALYSIS

(a) Do buyers understand that a lack of adequate price competition calls for price and cost analysis to determine price reasonableness?

(b) Do buyers have the tools (pricing manuals, access to technical specialists, price and quality history records, etc.) to perform their pricing duties?

(c) Do buyers handle purchases for production; spares; maintenance, repair and overhaul (MRO); using the same ground rules?

(d) Do buyers perform some form of cost or price analysis for every purchase?

(e) Do buyers have sole responsibility in practice and procedure for setting purchase order prices?

(f) Is timely and good quality pricing assistance available to buyers from within Purchasing, from Finance, Contracts, Materiel, Manufacturing or Engineering?

(g) Do Plant Engineering (Facilities personnel) and project office personnel refrain from contacting vendors to discuss prices, such that they interfere with the buyers' ability to negotiate fair and reasonable prices, (as evidenced by...

(1) vendor quotations addressed to those persons,

(2) receptionist records of visitors meeting with technical personnel without Purchasing escorts, and

(3) unusually large numbers of source directed requisitions with predetermined prices listed thereon.?

(h) For learning curve analysis, did buyers justify the slope of the curve (e.g., 90% quoted prices?

(i) Did buyers redetermine the reasonableness of prior prices before comparing currently quoted prices to them? If no,

(1) Was the damage minimal because the company has a history of such high competitive rates (e.g., 80% wherein reexamining prior prices would outweigh the benefits? or

(2) Has the CPSR team granted approval to the company's purchasing system for 3 or more consecutive years, giving buyers confidence that prior purchase prices were more than likely fair and reasonable? or

(3) After the fact, did buyers look for, and find, old purchase folders to discover whether the old prices were fair and reasonable?

(j) Do buyers request Engineering estimates as a last resort?

(k) Since price history is less reliable than other methods, are price history records relatively recent to ensure their reliability?

(l) Do buyers place copies of catalog or price list pages in PO folders to document prices for future buyers and audits?

(m) Do buyers analyze price differences between similar items and the effects of quantity variations?

(n) Do buyers look at price reasonableness despite a determination of adequately supported cost data because there may be a lower cost substitute, such as a used machine, that will serve the purpose?

(o) Did the Team rate price analysis effective in 90% of orders sampled for this CPSR?

(p) Did buyers mistakenly compare quoted prices to target prices on requisitions which were intended to be used as budget controls?

(q) Do buyers use cost estimating relationships (rough yardsticks) such as dollars per pound etc. for price analysis, or to highlight gross inconsistencies deserving in depth investigation?

(r) Do buyers accept "most favored customer" clauses (certifications of nondiscriminatory pricing under the Robinson-Patman Act) as a supplement to, but not replacement for, their own analysis of vendor quoted prices? If no,

(1) Do buyers accept "most favored customer" clauses only in lieu of conducting price analysis under the same circumstances that Government buyers do, that is for spare parts orders and repairs under BOAs? If yes,

a Does Internal Audit periodically sample "most favored customer" purchases to verify vendor claims?

(s) Does the MRP system provide buyers with target prices based on recent price history or moving averages?

(t) Do buyers rely on other pricing resources than target prices in analyzing vendor quotations?

(u) Do buyers request "information other than cost or pricing data" (limited and uncertified cost or price data) when necessary?

(v) For Capital Item Purchases...

(1) Where requisitions have predetermined prices, had Purchasing been involved in contacting suppliers to obtain prices for the capital expense authorization?

(2) Is this a relatively small company, or a large company with small field offices, where it is customary that local officers (e.g., vice presidents) are delegated purchasing authority by the CEO, and these persons obtained the capital item pricing?

(w) For Repair and Rework Orders...

(1) Do buyers issue "advise price" orders requiring vendors to tear down the equipment, to inspect for defects and wear, and to advise buyers of repair charges prior to starting work?

(2) Do buyers compare repair charges to purchase prices for new equipment before authorizing work?

(x) For Forging Services...

Do buyers check vendor quotations by multiplying estimated raw material prices times 2.5, multiplying the result times the forging input weight, and then adding on the charges for testing, heat treating, machining, G&A, profit, and shipping?

(y) For Raw Steel Purchases...

Does the contractor use "Pittsburgh Plus," the accepted industry method by which all prices from factories located anywhere price their steel as if produced in Pittsburgh, PA, and then add on shipping charges?

(z) For Labor Hour, Time & Material and Consultant Agreements..

(Only those qualifying as subcontracts); do buyers request assistance from the company's personnel department and/or technical personnel when analyzing hourly rates?

(aa) For Pricing Agreements...

(1) Does the contractor qualify for volume pricing with suppliers? If yes,

a Does the contractor negotiate...

1 "original equipment manufacturer" (OEM) agreements,

2 "federal integrator agreements" (FIAs); the same as OEMs only designed solely for government end products instead of commercial ones,

3 similar agreements to "government development products agreements" (GDPAs): agreements to supply products to the federal government for exclusive use in developing new products or for research and development, or

4 "volume end user agreements"; commercial equivalents to the GSA schedules.

(2) Does the corporate office enter into corporate purchase agreements which the contractor can take advantage of?

(3) Are there blanket ordering agreements (BOAs)?

(ab) For Software Purchases...

Do buyers obtain subcontractor participation in technical reviews and audits of systems equipment and computer software?

### (3) COST ANALYSIS

(a) Do buyers (cost analysts) follow company policy on when and how to conduct cost analysis?

(b) Do buyers (or cost analysts) segregate labor and material costs to permit separate analysis of labor settlements and material price inflation?

(c) Did buyers attempt to team with subcontractors during proposal development in order to reduce the procurement administrative lead time needed to review the proposals (normally done in conjunction with PCO/CAO/DCAA/contractor teaming under DoD's IPT Pricing, Alpha Contracting, Alpha Acquisition and One Pass initiatives)? (If such teaming was attempted but failed due to subcontractor reluctance, it is not a negative for the CPSR contractor)

(d) Do buyers obtain labor rate verifications and proposal audits from company auditors? If no,

(1) Do buyers approach their ACOs to obtain these verifications and audits from DCAA, but only after they have elevated vendors' refusals to allow access to their records through company Management (as high as vice president, if not higher)?

(e) Did the team rate the company's cost analyses effective in 90% of the cases?

(f) Do buyers negotiate profits and fees consistent with the risk involved for the potential supplier? If no,

(a) Do buyers use analytical tools, such as the weighted guidelines, to judge the reasonableness of profit or fee?

(g) Do buyers examine each element of cost in order to locate real weaknesses, not just mathematical errors?

(h) Do cost analysts use Data Resources Inc. (DRI), or other listing of price and wage indices to develop negotiation positions, or otherwise analyze vendor cost proposals?

(i) Do buyers compare the previous cost breakdowns from the same vendor to current ones to discover questionable cost elements?

(j) For material costs, do buyers use improvement curves, statistical correlation, rules of thumb, physical features like weight, tensile strength, and price indices?

(k) For direct manufacturing labor, do buyers use improvement curves, comparisons to similar labor (similitude), labor standards for products of different weight, size, and dimensions?

(l) For labor, do buyers consider the experience factor for different categories (e.g., senior versus junior engineers)?

(m) For labor rate escalation, do buyers adjust actual rates for predicted labor inflation, labor settlements, and audit recommendations?

(n) For overhead costs and G&A, do buyers project rates based on projected cost as spread out over a projected sales base?

(o) Do buyers analyze vendor tooling estimates (e.g., rules of thumb based on the expected number of detailed engineering design drawings)?

(p) Do buyers analyze profit based on risk, complexity, benefit to other contractor business, investment and amount of subcontracting, and duration of contract?

(q) Do buyers make fact finding trips to bidder plants to obtain additional information not submitted, or to view data specifically identified in the cost data submission?

b. Topics to be Included As needed

(1) MANAGEMENT ATTITUDE TOWARD PURCHASING

(a) Is Senior Management aware of the policies and procedures of the Material and/or Purchasing Departments?

(b) Is Management cognizant of major subcontractors being used and the performance of these key suppliers of materials and services?

(c) Is Management responsive to operating problems in Purchasing and Subcontracts?

(d) Did the contractor cooperate with the CPSR Team in making documents available, arranging appointments and otherwise facilitating the Review?

(e) Does Management have a healthy interest in Purchasing and in having an ACO approved system?

(f) Where Senior Management's experience and expertise was in project management and engineering, has it delegated sufficient authority to Purchasing or Materiel to compete with other departments on an equal basis?

(g) Did other government personnel (ACO, DCAA, etc.) express positive beliefs about Management's attitude?

(h) Did Contractor personnel outside Purchasing express a healthy level of confidence in Purchasing's ability to service their needs?

(i) Did the Team notice any safety violations during the plant tour that need to be reported to the ACO (or the prime contractor's ACO if this is predominately a subcontractor) so that a safety inspection can be scheduled per DFARS 252.223-7002(b)(2)?



(j) The following questions on Interdepartmental Relations may indicate a problem with management's attitude.

**1 Does Contracts**

- a** provide either
  - i** contract briefs (sometimes called sales orders, general orders, and contract summaries) to Purchasing and Subcontracts in order to ensure that all prime contract clauses affecting subcontracting, including flow down clauses, will be known to the buyers, or
  - ii** copies of prime contracts to Purchasing to interpret for itself?
- b** consult with Purchasing on purchase lead times prior to negotiating prime contract delivery schedules?
- c** if major subcontractors participate as teaming agreement partners in negotiations with PCOs, does Contracts provide source selection rationale, subcontractor cost or pricing data, etc. to buyers for documentation purposes?
- d** request from Purchasing a list of likely subcontracts for forwarding to the ACO negotiating BOA releases, who must synopsize them?

**2 Do Engineers** (project officers, program engineers and plant engineers)

- a** submit correct and timely requisitions for their purchases,
- b** inform buyers of the time and nature of their vendor contacts,
- c** respond in a timely manner to buyers requests for engineering price estimates,
- d** allow buyers to inform vendors of change order requirements,
- e** notify buyers of advances in state-of-the-art, new product development and prospective change order requirements?
- f** work with buyers to resolve specification difficulties,
- g** respect buyer authority to select suppliers and commit the company to subcontract, and
- h** evaluate subcontractor work measurement data in a timely manner and report to Estimating and Subcontracts (Purchasing) the data needed in future subcontract negotiations on task hours?

**3 Does Legal Counsel**

- a** draft and/or approve general terms and conditions that meet U.S. Government contractual requirements,
- b** review general Ts & Cs periodically, issue revisions,
- c** answer inquiries promptly, and
- d** provide advice in cases of vendor claims and disputes?

**4 Does Quality Assurance (QA)**

- a** perform vendor surveys promptly upon Purchasing's requests
- b** include supplier delivery performance among its vendor rating criteria?
- c** avoids constructive changes by requiring its personnel to go through buyers or subcontract administrators (SAs) to communicate with or transact business on substantive matters with subcontractors? and

d provide inspection assistance or full time resident services at vendor plants when requested?

e Perform Receiving Inspection in a timely manner and notify Purchasing and Accounts Payable (Finance) of any charge backs to vendors?

**5 Does Finance**

a pay suppliers in accordance with subcontract terms,

b pay suppliers in accordance with buyers' special requests (e.g., fast pay for minority owned business, etc.)?

c pay subcontractors eligible for progress payments as soon as practicable after receipt of related customer progress payments? and

d seek Purchasing's input in determining inventory policy?

**6 Does the receptionist or guard service** notify the appropriate buyer when suppliers visit technical departments?

**7 Does Internal or Corporate Audit**

a review the contractor's purchasing system (If yes, what are the results? If no, should it do so?), and

b check with suppliers regularly, or occasionally, in order to detect unethical purchasing practices?

c have guidelines (such as listed in para. 7. below) designed to detect subcontractor kickbacks?

**8 Does the MIS** (Management Information System) computer center

a tie Purchasing, Receiving, Accounts Payable, Inventory and Material Control together through an MRP system for maximum efficiency, If no,

a are there plans to do so at some future time?

b provide timely expenditure and receiving reports for to Purchasing, and

c act promptly to minimize system down time?

**9 Does Purchasing**

a in order to permit notification to the ACO, notify Contracts of cost overruns under limitation of cost provisions of "Incentive Price Revision" and Price Redetermination" clauses,

b notify program managers of potential overruns to budget and obtain their approvals prior to subcontract awards?

c cooperate with, and support in a timely manner, Engineering, project management offices, and ad hoc and standing committees in identifying new sources, materials and pricing for use in standardization, make-or-buy, value engineering and advance planning decisions?

d arrange meetings and communicate with subcontractors on behalf of company QA, and

e exert special effort to speed delivery of items critical to production and the assembly line?

**10 Does the Subcontracts Department**

- a provide subcontract pricing proposal sheets and subcontract status reports to Contracts during prime contract proposal periods?
- b perform liaison duties between company QA (and project management) and subcontract personnel?
- c provide Engineering with copies of subcontractor work measurement data for analysis?

**11 Does Material Control**

- a provide realistic need dates on purchase requisitions,
- b extend need dates for otherwise late items that can be worked around in the assembly process?

**12 Does Estimating** allow Purchasing time to obtain vendor quotations needed for proposals being prepared for sales and marketing?

**13 Does Traffic**

- a provide routing information for use on purchase orders,
- b trace lost shipments on request,
- c investigate claims for damaged goods, and
- d requisition only enough packaging and packing material to meet specifications, thus contributing to lowering costs?

**14 Does Receiving and/or Receiving Inspection**

- a handle incoming items promptly and notify buyers and Accounts Payable in a timely fashion, and
- b process return to vendor and CFM shipments expeditiously?

**15 Does Computer Software Management**

- a review and advise Purchasing on ownership and data rights on subcontracted computer software development,
- b advise Purchasing on the flow down of computer program configuration items (CPCI) including software library controls,
- c assist in evaluating software development incorporated by subcontractors in electromechanical ADPE systems, and
- d evaluate software standardization to reduce the degree of experimental work required?

(k) The following reports and administrative controls question may be helpful in determining the interest and abilities of contractor management:

**1 Reports**

**a** Do existing reports cover important functions and provide Supervision and Management with useful and timely information?

**b** Do they cover all important topic areas for purchasing personnel?

**c** Do the personnel submit accurate and timely reports?

**d** For cost type contracts, does Finance (Accounts Payable) report formally on prompt payment discounts lost?

**e** Do Supervision and Management use the reports to exercise appropriate controls?

**f** Do personnel in the purchasing cycle supplement these reports with meetings with Management to discuss new developments, to clarify questions, etc.?

**g** Does Purchasing provide Production Control with status reports in order to identify delays which could impact production schedules, and which may demand internal expediting, work around, or other corrective action?

**2 Controls**

**a** Do requisitioners and buyers use target prices as budget controls? If no,

**b** Does company QA place its stamp on requisitions to indicate its review?

**c** Does Purchasing distribute PO copies through internal office mail, or through the MIS system, to Accounts Payable, Receiving and project offices in a timely manner and in accord with company policy?

**d** Does Purchasing Management monitor requisition aging in order to control PO release and buyer productivity?

**e** Does Subcontracts (Purchasing) Management monitor open letter subcontract aging in order to prevent definitization delays leading to cost plus percentage of cost subcontracting?

**f** Does Purchasing Management review buyer workload periodically in order to determine needed overtime or to adjust staffing levels?

**g** Do requisitioners obtain their own supervisors' approvals before sending requisitions to Purchasing?

**h** Does Internal Audit examine purchasing operations, especially the progress payment practices to subcontractors?

(2) PURCHASING ORGANIZATION

(a) THE PURCHASING (SUBCONTRACTING) DEPARTMENT'S PLACE IN THE LARGER ORGANIZATION

1 Are the organization charts supplied by the contractor clear enough that we need not describe the organization in words here?

2 Is Purchasing's (and Subcontracts', if applicable) organizational level conducive to good operation?

3 Is Purchasing subordinate to no more than a Materiel or an Operations type department, and not to Engineering, Program Management, etc.?

4 Does company policy clearly define Purchasing's responsibilities vis a vis other departments?

5 Is Material Control independent of need generating departments?

6 Is Purchasing part of a traditional "materiel" organization consisting of Stores, Receiving, Material Control, and Traffic?

(b) INTERNAL PURCHASING ORGANIZATION

1 Are buyers (other than subcontract administrators) assigned to particular commodities?

2 Do buyers regularly rotate from one commodity to another?

3 Does Purchasing have staff groups (e.g., cost analysts, expeditors, etc.) to assist buyers in special fields?

4 Is there a major subcontracts department to handle major subsystems procurement? If no,

a Are the purchases so simple and inexpensive as to make a subcontracts department unneeded?

5 Does this purchasing office have authority over buyers located in the field or assigned to project management teams, and does Purchasing maintain their files?

6 Does the operating cost data supplied by the contractor indicate a normal administrative operating cost as a percentage of sales?

7 Do price/cost analysts supporting buyers report as staff persons directly to the Purchasing Manager?

### (3) PURCHASING PERSONNEL

- (a) Do buyers and support personnel possess sufficient years of purchasing experience, on the average, to instill confidence in their professional accomplishment?
- (b) Are buyers knowledgeable of Company and Government purchasing principles and goals?
- (c) Are there enough purchasing personnel to handle the workload?
- (d) Are buyers trained in blueprint reading and shop practices?
- (e) Is signature authority clearly stated by dollar level?
- (f) Does the contractor offer educational assistance to purchasing employees at local schools, or through corporate facilities?
- (g) Is there a healthy ratio of buyers to supervisors?
- (h) Does the contractor use reasonable criteria to classify its purchasing personnel (as junior buyers, associate buyers, buyers, senior buyers, purchasing agents, and subcontract administrators) such as length of experience, number of persons supervised, types of purchase actions assigned, etc.?
- (i) Do buyers and Purchasing staff groups understand each others terminology, making maximum use of technical input?
- (j) Do supervisors appear to have administrative ability in addition to their technical know how?
- (k) Do some Purchasing personnel possess experience in other fields (e.g., engineering, law, etc.) such that they can understand and work effectively with other departments?

#### 4. ANALYSIS OF PURCHASE ORDER CLAUSES

a. The protection of the Government's interests with subcontractors depends on the terms and conditions used by prime and higher tier subcontractors to communicate requirements to lower tier subcontractors and suppliers.

b. FAR and DFARS clauses apply to direct charge subcontracts, whereas other clauses apply to indirectly charged purchase orders based on good business practices.

##### (1) General Subcontract Terms and Conditions

The team should review the contractor's general purchase order terms and conditions for the following. To the extent possible, teams should identify possible problem clauses and omissions in their letters requesting Government Legal Counsel assistance:

(a) Commercial prime contracts.

1 Does the contractor have separate terms and conditions for use with purchases under Government prime contracts for commercial products? If yes,

2 Do these terms and conditions reflect the commercial purchasing practices of FAR 52.212-4?

3 Do these terms and conditions contain the flow down required by law, as stated in FAR 52.212-5?

(b) Do the terms and conditions for use under noncommercial prime contracts contain all the normal, FAR, and DFARS (NASA Supplement) standard clauses?

(c) If DCMC Legal Counsel advised that certain clauses are missing from the standard preprinted clauses, there may be no deficiency if the contractor

1 uses flysheets to insert those clauses,

2 types the clauses in the bodies of subcontracts?

3 includes them in subcontract transmittal letters, or

4 references acceptable master clause lists mailed annually to regular suppliers?

(d) Except for about 15 clause exceptions, are the referenced Government clauses modified to show "buyer" and "seller" rather than "contracting officer" and "contractor"?

(e) Do the clauses contain any obsolete references? If yes,

1 does the contractor plan to delete them at the next printing, and amend them until that time?

(f) Are solicitation (RFQ, RFP, etc.) clauses consistent with the purchase order clauses?

(g) Does the purchase order form have a box for exclusion of state taxes for Government end use purchases?

(h) Does it show the DPAS citation and rating?

(i) Do shipping instructions on the purchase order form name specific routing, avoiding phrases like "best way" and "vendor option" which can increase inbound shipping costs?



(j) Do RFQs and RFPs contain all the normal certification forms required for their particular dollar level of purchase?

(k) Where new or unusual conditions are imposed by PO modification, (e.g., source inspection, drop shipments, etc.), do buyers insert special clauses to reactivate terms and conditions that were unenforced in the past?

(l) Does the contractor submit new clauses to the ACO for review prior to publication? If no,

1 Does a high level group, or the corporate office, issue all terms and conditions for this division? and

2 Does the Team need to approach the corporate administrative contracting officer (CACO) to correct terms and conditions imposed by the corporate office?

(m) Under fixed price prime contracts awarded under the Federal Acquisition Streamlining Act (FASA) rules, does the contractor flow down only the commercial product clauses (FAR Part XII) for its commercial items purchases under commercial prime contracts?

## (2) RESTRICTIVE CLAUSES

- (a) Do the clauses avoid language giving all rights to tooling, data, designs, etc. to the prime contractor, such that the supplier cannot sell directly to the U.S. Government?
- (b) Does the patent rights clause avoid language securing rights for the prime contractor that are greater than those accruing to the Government?
- (c) Where there is a proprietary interest involved, does the prime permit subcontractors to submit technical data directly to the Government?
- (d) Do the clauses show that the contractor is not using its economic leverage as a Government contractor to secure rights in technical data or computer software, which would be a violation of DFARS 252.227-7013 (k) (4)?
- (e) Does the prime inform subcontractors of their rights under DFARS 52.227-7013 (k) (5)?
- (f) Does the Interpretation of Order clause clearly state that Government subcontracts will be governed by FAR etc., not by the laws of the State or the Uniform Commercial Code?
- (g) Does the prime contractor's Audit Rights clause wrongly make audits by the Government subject to prior approval of the prime contractor?

## (3) SPECIAL CLAUSES

### **General Features**

- (a) Does the contractor incorporate special clauses into subcontracts by flysheet, by typing them in the bodies of subcontracts, by including them in transmittal letters, or by checklist?
- (b) Does the contractor delete "disputes" references in flow down clauses and/or substitute its own clauses to protect the Government's interest in privity of contract?
- (c) Do letter subcontracts contain provisions setting specific definitization target dates?
- (d) Are pricing or payments clauses consistent with subcontract types
  - 1 for FFP subcontracts, avoid "advise price" or "NTE" terms,
  - 2 omit unilateral adjustment rights by prime contractor, or
  - 3 avoid price escalation features differing from those in the prime contract?
- (e) In the plant tour, did the team see any foreign markings on material which might suggest a violation of the "Buy American" clause to be reported to the ACO?
- (f) Does the contractor's MRP (MMAS) system permit the separate tracking of Government requirements by contract, in order to avoid failure in flowing down required special clauses, to make accurate reports (e.g., SF 295), and to comply with Government subcontracting policy?
- (g) Does the contractor flow down the mandatory clauses in all subcontracts (Restrictions on Subcontractor Sales to the Government, and Anti-Kickback Procedures)?

### **Special Clauses for Hardware Subcontracts**

(a) Are the following optional clauses used to protect the contractor: Warranty, Termination for Convenience, Government Property, Limitation of Payment, Price Reduction for Defective Cost or Pricing Data, Default, Walsh-Healy Act, Inspection, Changes, Assignment of Claims, etc.) in order to protect itself?

(b) Do prime contractor solicitations and purchase orders address progress payments to qualifying subcontractors (purchases over \$1,000,000 and delivery extends 6 months or more) when the primes are eligible to receive them?

(c) Do buyers correctly choose the appropriate clause and progress payment rates for large or small businesses and reflect them in subcontract documents?

(d) Does the contractor flow down the "Audit" clause in orders over \$100,000? (FAR 52.214-26 (sealed bid) and FAR 52.215-2 (negotiated))

(e) Do subcontracts contain applicable packaging instructions required by prime contracts?

(f) Do buyers place the "Subcontractor Cost or Pricing Data-Modifications" clause in all subcontracts exceeding \$500,000 (or \$100,000 if applicable)? (Note: this clause applies even if the original award was competitive.)

(g) Do buyers place the "Subcontractor Cost or Pricing Data" clause in subcontracts where cost data applies to the original award?

(h) Do FOB origin subcontracts under cost type prime contracts carry the "Section 10721" freight rates legend (FAR 52.247-1) on the face of the order in order to alert subcontractors that the Interstate Commerce Commission negotiated discount rates are available.

(i) If the "Incentive Price Revision" or "Price Redetermination" clauses apply to this contractor, do subcontracts thereunder contain these clauses modified as required?

(j) Do buyers include the Government's "Inspection & Acceptance" & "Default" clauses inasmuch as they provide more protection than similar clauses recommended by the UCC?

(k) Do buyers include DFARS 252.225-7026, "Reporting of Contract Performance Outside the United States," in all subcontracts exceeding \$100,000?

(l) Does the contractor's special tooling clause permit the prime contractor to take title to the tooling, as is customary in industry for this commodity, and do buyers negotiate lower pricing to offset the reduced benefit?

(m) Does the contractor's government property clause require subcontractors to assume liability for government furnished property (GFP) in their possession?

(n) In flowing down Government Property and Termination clauses, does the contractor alter them to retain the meanings of "Government" and "Contractor" where needed to show ownership of property and the right of access for audit and inspection purposes?

(o) Does the contractor correctly omit "Assignment of Claims" clauses which do not apply to subcontracts?

(p) Does the contractor state the specific conditions when the Patent Rights clause applies, (e.g., small business suppliers engaged in R&D) avoiding uncertainty among suppliers and the administrative expense of clarifying correspondence, when the clause is referenced only?

(q) Does the contractor ensure that "Warranty" clauses are consistent with those in the prime contracts?

(r) Does the contractor reference 41 USC 51-58 or "Subcontractor Kickbacks" policy to alert vendors to its policy on this issue?

(s) Does the contractor know not to flow down the "Subcontracts" clause?

(t) Does the contractor request lower tier subcontract consent for flexibly priced subcontracts, and prohibit cost plus percentage of cost subcontracting by suppliers?

(u) Does the contractor place DFARS 252.223-7002 in subcontracts involving ammunition and explosives, citing the name of the prime contractor and reserving the Government's right to inspect for safety violations (that means this clause cannot be flowed down by reference)?

(v) Does the contractor only use the Authorization and Consent clause when included in prime contracts, so that legal suits for infringement of subcontractor patent rights will be correctly targeted at the U.S. and not at the prime contractor?

#### **Special Clauses in Construction Subcontracts...**

(a) If this is an A&E or construction contractor, does it...

1 flow down FAR 52.248-3, 52.222-6, -8, -9, -10, -11, -12, -13, -14, and -15, and FAR 52.236-13, -21 in all subcontracts?

2 flow down FAR 52.219-9, 52.222-27, and 52.248-3 in all subcontracts exceeding dollar limits shown?

(b) provide the ACO with SF 1413 forms signed by respective subcontractors for every subcontract issued with the FAR 52.222 clauses?

#### **Special Clauses in Software Subcontracts...**

(a) Do buyers incorporate quality provisions listed on requisitions into purchase orders for software?

(b) Do buyers require subcontractors to participate in software standardization programs to be flowed down from prime contracts?

#### **Special Clauses in Repair Service Subcontracts...**

If the contractor issues subcontracts for repair services, do buyers require subcontractors to notify them of defects and estimated costs, and request permission to proceed?

#### (4) SIDE AGREEMENTS

(a) In dealing with suppliers, does the contractor avoid converting side agreements, such as master purchase orders or blanket ordering agreements into instruments which could negate, override, or modify the standard or special clauses to the detriment of the Government's interests?

(b) If the Contracts (Marketing) Department has entered into teaming agreements with suppliers in order to establish product lines for its sales and marketing efforts, do the agreements themselves avoid overriding the standard or special clauses?

#### 5. DOCUMENTATION OF PURCHASING FILES

a. Documentation is important because it provides the evidence that essential purchasing tasks have been performed and that the system has protected both the company and the Government against fraud, waste and abuse.

b. If the analyst can determine from interviews and review of evidence outside the official files that undocumented tasks have been performed, then credit should be given for the task, but no credit should be given for documentation.

(1) Did PO folders contain written evidence of most actions verified in the CPSR sample?

(2) Did buyers support in writing their source selections, price analyses and negotiations?

(3) If company policy is to maintain documentation outside of the PO folders, is the information readily retrievable and easily identified?

(4) Did all requisitions and purchase orders have needed approvals and signatures?

(5) If the contractor has a paperless computerized requisition system, is there a fool proof method of ensuring that only properly authorized requisitions result in purchase orders?

(6) Do all direct charge Government POs indicate DPAS rating (replace "15 CFR 350" with "15 CFR 700"), shipping method (if applicable), FOB points, and nonapplicability of sales tax?

(7) Do PO folders contain copies of orders, drawings, specs, quotations, Government required certificates, solicitations, copies of notifications to the Government, price analyses, records of negotiations and other documents necessary to provide an accurate history of the transactions? If no,

(a) Is the excuse a reasonable one, such as follows:

1 For repetitive shop materials, the contractor utilized traveling requisitions which are reusable for several purchases in succession, and less documentation is needed? or

2 Does the contractor keep most information on computer and is it readily retrievable, etc.)?

3 Purchase orders were of very low dollar value and/or competitive, such that the expense of documenting (beyond that needed to detect waste, fraud and abuse) could easily outweigh the benefits? (C-208.7)

(8) Did the contractor comply with any applicable ISO 9000 purchasing requirements?

## 6. MAKE OR BUY POLICIES AND PROCEDURES

- a. Was the contractor required to submit a make or buy plan by the PCO? If yes,
  - (1) Did the contractor submit one?
  - (2) Did the contractor make and changes to the plan? If yes,
    - (a) The the contractor request permission to change the plan pursuant to the “Changes in Make or Buy” FAR clause?
    - (b) Was Purchasing consulted before the changes were proposed?
- b. Were any make or buy decisions contrary to normal practice for this contractor? If yes,
  - (a) Were the changes justified?
- c. Was production control consulted on shop load before changes were proposed?
- d. Was Purchasing represented on the Make or Buy policy committee?
- e. Was Purchasing represented on the Make or Buy implementation committee?
- f. Does the contractor use adequate criteria for judging whether to make or buy ( such as
  - (1) delivery time
  - (2) product compatitiblity with other company products
  - (3) technology, expertise, or trade secrets available outside/inside company
  - (4) economy in manufacturing
  - (5) impact on future business opportunities
  - (6) resource availability
  - (7) customer preferences (e.g., small business, industrial preparedness)
  - (8) pricing trade offs
- g. Does the contractor take and save minutes of make or buy meetings?

## 7. MATERIAL ESTIMATING - BUDGET CONTROL

a. This topic should be assigned to the DCAA team member who may be able to extract the information from existing records from a contractor estimating system review report.

(1) **Material Estimating** (May be foregone if DCAA provides copy of recent CESR report)

(a) Is there an estimating department which is responsible for developing estimates of material for use in proposals to sales customers?

(b) Does Purchasing respond to requests from the estimating department with pricing information responsive to the requests (e.g., if estimating requests Purchasing to obtain competitive quotations, do buyers obtain them, and does Purchasing respond within the time allowed?)?

(c) If Purchasing doesn't provide competitive quotations to Estimating, did Estimating request competitive quotations? (If not, this is an estimating system deficiency, not a purchasing system deficiency.)

(d) If DCAA inquiries indicate that there is a bid/buy variance, or that proposals have inflated prices over what historical pricing records show, is Purchasing responsible? (If not, this an estimating system deficiency.)

(e) If DCAA tells us Purchasing is to blame for the bid/buy variance, did DCAA issue a DCAA Form 1 to recover the costs under the "Price Reduction for Defective Cost or Pricing Data" clause? (If no Form 1 was issued, there may be too little supporting evidence for DCAA's assertion and the Team may wish to decline to consider this as a reportable deficiency. Consult with the ACO on this.)

(f) Did buyers notify Contracts (Marketing) of bidders with deficient MRP (MMAS) systems (as identified by DCAA) to permit preaward notification to PCOs as part of subcontractor certified cost or pricing data submissions?

(2) **Budget Control**

(a) Does Contracts consult with Purchasing and Subcontracts before reducing program budgets, reductions made necessary by negotiations with customers?

(b) Do requisitioners place target prices on requisitions, in order that buyers must seek their approval before placing orders in excess of budget?

(c) Are there administrative controls to keep personnel costs and office operation costs under control?

(d) Does the contractor delegate signature authority to buyers, supervisors, managers and vice presidents by dollar level, in part, in order to avoid excessive expenditures?

## 7. DEVELOPING PURCHASE REQUIREMENTS

- a. This step in the acquisition process involves determining what to buy.
- b. Contractors may need to replenish regularly stocked items which they have delivered to customers, or they may purchase to meet incoming orders.

### (1) ADVANCE PURCHASING PLANNING

(a) Does Purchasing have a system to review recurring noncompetitive requirements (second source development) prior to requisitioning for source expansion consideration?

(b) Does Purchasing classify its purchases for ease of analysis, as maintenance-repair-operating supplies (MRO), MRP stores, purchased parts, outside manufacturing/processing, and major subcontracts?

(c) Does Engineering cooperate with Purchasing in evaluating potential bidders when requested to do so?

(d) Does the contractor use as its targets for competition, those items that are...

1 procured in high quantities

2 forecasted to have high usage

3 high unit priced

4 not tied to current subcontractors by proprietary rights or exclusive manufacturing processes

5 likely to have second source funding provided by customers

6 forecasted to have demand exceeding current plant capacity

7 recurring production problems for the current subcontractors

8 purchased under current customer contracts with award fee provisions for second sourcing

9 specifically included in make or buy plans as dual source items

10 subject to formal customer consent requirements before purchase

11 indicated in previous CPSRs as being candidates for source expansion

12 among those known to be of interest to Government buyers for source expansion consideration

13 likely to draw small and minority own supplier interest which could help meet subcontracting goals?

(e) Does the Contractor set competition goals for its advance purchase planning program?

(f) For each advance purchasing plan target, does documentation include:

1 substantiation of source by the user or requisitioner,

2 thorough cost analysis,

3 complete documentation of facts,

4 reports to higher Management on progress made,

5 the recycling of single source requisitions back to users for source expansion consideration?



(g) Is there a method to compare progress to previously analyzed potential, and readjustment of goals, if necessary?

(h) Is there a source development budget with funding based on return on investment (ROI)?

(i) Does Purchasing review and categorize single and sole source purchases as:

1 can and will be competed,

2 cannot be competed due to:

a proprietary drawings,

b availability,

c inventory cost of new items,

d tooling impact,

e life cycle cost impact,

f standardization implications,

g delivery schedules,

h quality requirements,

i administrative and production lead time,

j special techniques offered,

k configuration control,

l age of program, and

m qualification costs.

3 could be competed under right circumstances (if vendors can meet qualification test standards, etc.)?

(j) Does the contractor consider required delivery lead times and economic ordering quantities?

(k) For major subcontracts, does the contractor...

1 identify subsystems and components for competitive opportunities?

2 identify competitive spares and repair sources?

3 identify barriers to competition and develop strategies to overcome them.

4 map out the source selection procedures, timing for submission of proposals, evaluation factors (life cycle costs, rights to data, progress reports, contractor furnished material (CFM), etc.)

5 identify environmental adjustments and considerations needed (such as budgeting, funding, product descriptions and work statements, warranties, etc.)

## (2) IDENTIFY THE PURCHASE REQUIREMENTS

### (a) General Requirements

- 1 Does the contractor have an automated MRP system (material requirements planning (MRP I) or manufacturing resource planning (MRPII))?
- 2 For MRP I systems, are the receiving, purchasing, inventory, material control modules in operation? If no, determine when they will be operational.
- 3 For MRP II systems, are the marketing, manufacturing and accounts payable modules in operation?
- 4 If an MRP system is currently being installed, is the contractor running it parallel to the old system while debugging occurs?
- 5 Does the MRP system allow tracking of material by individual contract? If no,
  - a Does the contractor have all fixed price prime contracts and no progress payments from the Government? If no (the contractor does request progress payments or has cost type contracts), or
    - i Has DCAA conducted a review of the contractor's MRP system and found it to be in compliance with the Government's interests? or
    - ii If DCAA found MRP system deficiencies, do they involve purchasing system issues?
  - b Does the contractor use DPAS priority ratings (DO and DX) on purchase orders to replace material withdrawn from inventory to satisfy Government requirements?
- 6 Are purchase requisitions generated through manual reviews of bills of material, engineering changes, scrap notices, inventory losses, replenishment of stock, and capital item requests? If no,
  - a Is the contractor small enough to justify a manual system?
- 7 Do material control personnel prepare the requisitions for project items? If no,
  - a Do material control personnel review requisitions submitted by the using departments with the objective of combining quantities, utilizing current inventory, satisfying scrap or other losses, etc.? If no,
    - i Do Purchasing Department personnel perform the above material control function?
- 8 Where Material Control does write requisitions itself, does it review scrap losses, termination inventory, and surplus inventory on hand when determining quantities to be placed on requisitions?
- 9 Does Material Control isolate and consolidate items on bills of material into lists of similar items in order to gain volume pricing and reduce purchase order administration costs?
- 10 Does the contractor have a system to recover precious metals from scrap material and to credit the Government for its share after sale?
- 11 Do DCMD Property personnel report no unusually large balances of excess material?

12 Does the contractor have acceptable methods of disposing of excess material (e.g., sales, transfer to other projects, etc.)?

13 Does the contractor practice speculative buying on raw materials, especially those that greatly fluctuate in price?

14 Does the contractor follow company standardization policy for non-project requirements?

(b) **Project Requirements**

1 **Hardware**

a Are purchase requirements generated through exploding project bills of material, producing requirements schedules, determining long lead items, adding production schedules, and reviewing them against residual and other inventories?

b Are standardization requirements of the various military standards followed (see Standardization)?

2 **Software**

Does the contractor follow standardization requirements for software development (see Standardization)?

3 **Capital Items**

a When writing their capital item requisitions, do user departments obtain their Management's advance authorizations to buy?

b Before requisitioning capital items, does the contractor perform a cost/benefit analysis including availability of funds, impact on competitive sales position, and potential for cost savings?

c Does upper Management approve all capital item requisitions?

d Do departments requesting capital items consult with Purchasing to obtain leads on vendors and to obtain pricing information?

### (3) ESTABLISHMENT OF SCHEDULES - PURCHASING LEAD TIME

#### (a) Establishment of Schedules

1 Does Contracts determine purchasing schedules to be used in proposals to customers by working back from production line need, any kitting or processing time subtracted out, but taking published lead times and cushion time into account?

2 If the customer negotiates reduced schedules with Contracts, does Contracts consult with Purchasing and Subcontracts to determine the impact?

3 If suppliers refused to accept DO or DX rated orders, did the contractor notify the contracting officer?

#### (b) Purchasing Lead Time

1 Does Purchasing issue a lead time report to be used by requisitioners when ordering noncapital items?

2 Does Material Control issue requisitions for long lead items first?

3 Does Material Control issue other requisitions in accordance with the lead time schedule, avoiding the flooding of Purchasing with unmanageable stacks of requisitions?

4 Is the purchase lead time shown in the CPSR statistics generally adequate?

If no,

a Does the contractor have large numbers of repair or rework orders for which lead times are customarily short and which may excuse the poor statistical showing?

5 Is there a correlation between our short lead time statistics and noncompetitive awards, indicating that using departments deliberately hold their requisitions to the last moment to prevent buyers from seeking alternate sources?

6 Do requisitions exhibit the approval signatures and Quality Assurance stamps?

7 In spite of the award of prime contracts with shortened delivery schedules, do requisitioners provide realistic purchase lead times to buyers? (Note: short purchase lead time can be seen in the...

a CPSR statistics (too many purchases with less than 30 days),

b lead times on requisitions not corresponding with those published by Purchasing,

c excessive delinquent supplier deliveries (also shown in the CPSR statistics).)?

8 Does the contractor have excessively long lead times, such that delivered material becomes obsolete due to predictable design changes, necessitating higher than normal scrap losses and reprocurement costs?

9 Does the Team's analysis of the flow of selected requisitions indicate that normal administrative conditions exist here?

10 If computers determine schedules, does the contractor update the database with current lead times, as required?

11 Does the contractor use standard lead times rather than variable ones?

(4) INVENTORY CONTROL

(a) Does Inventory (Stores) use a min/max system for common use items? If no,  
1 Does the contractor's dominant customer require an item by item system because of its desire to account for every item under its cost reimbursement contract? (e.g., Dept. of Energy contracts)

(b) Are reorder points determined which will obtain replenishment quantities before inventory levels reach the "minimum?"

(c) Do Inventory personnel reevaluate min/max levels periodically to set levels consistent with current usage patterns?

(d) Does the contractor keep up to date inventory records for its min/max items?

(e) Does Inventory consider economic ordering quantities, purchasing lead time, and administrative delays when setting reorder points?

(f) Does Inventory conduct physical inventory to reconcile the inventory on paper on either a daily, weekly, monthly or yearly basis?

(g) Does Inventory manage high volume items (screws, pins, etc.) by weight or a bag system in order to minimize material handling costs? If no,

1 Does the dominant customer forbid these methods for the same reason given in a. above? (e.g., Dept. of Energy contracts, et al)

(h) Does the contractor hold large amounts of excess material indicating poor analysis of inventory by material control?

(i) Does Inventory segregate material bought for Government cost type contracts from other material in order to prevent its unauthorized diversion to fixed price or commercial contract work, and to permit separate accountability of Government owned property from contractor property?

(j) Is Stores physically located near the receiving dock in order to prevent damage in transit?

(k) Do Stores personnel minimize material loss by its security measures, such as surveillance of area by on duty personnel, use of controlled access doors, etc.?

(l) Were these precautions seen to be in effect by the Team during the CPSR in plant period?

(m) If the Team noticed inventory being stored outside of the Storeroom (e.g., due to physical size), were adequate precautions taken to safeguard it?

(n) Does Inventory use standard industry practices to monitor material with short shelf lives to control spoilage?

(o) Is there an automated storage system to permit high density inventory storage? If no,

1 Is the contractor too small to warrant such an investment in automated systems?

(p) If there is an automated system, is there a cycle count feature to improve time and labor required to stock the shelves (and to furnish material to the production line)?

(q) Have Government Property personnel (through the ACO) approved the contractor's property system in the last 12 months?

1 Is the contractor cooperating with Government Property personnel to correct whatever deficiencies were noted?

(r) Does this contractor use a first-in, first-out (FIFO), or a last-in, first-out (LIFO) policy?

(s) Does the contractor consistently use follow it FIFO/LIFO policy across all contracts to prevent overcharging on cost type contracts?

(5) MATERIAL CONTROL METHODS

(a) Does the contractor charge its contract purchases directly to project accounts?

If no,

1 Does the contractor charge them to pool accounts or to common inventory, later charging it to project accounts when the material is withdrawn from inventory and sent to the production line?

(b) Does the material control system (MRP/MMAS) permit the tracking of material with DPAS (DO and DX) ratings throughout the purchasing process? If no,

2 Does the contractor place the appropriate DO or DX rating on purchase orders for replacing items withdrawn from inventory?

3 Does the contractor have a standard cost system acceptable to industry standards?

(c) For material purchased in advance of contract award, does the contractor use the DO C9 self authorizing rating to obtain vendor adherence to the required delivery schedule?

(d) When purchasing material for several contracts with differing ratings, does the contractor use DO H1 or DX H1?

(e) When purchasing material for rated and unrated work (commercial or capital items), does the contractor avoid mixing the two types on a single purchase document, unless it complies with the conditions prescribed in the DPAS handbook?

(f) Does the material control system effectively track material from the receiving dock to Stores?

(g) If the contractor charges directly to customer contracts, does it maintain traceability of material by use of prime contract numbers, company assigned account numbers, or project identifiers on the faces of purchase orders and requisitions?

(6) EXPEDITING AND FOLLOW UP OF PURCHASE ORDERS

(a) Expediting

1 Do purchasing expeditors perform purchase expediting in order to free buyers to concentrate on doing a professional purchasing job? If no,

a Do buyers perform their own expediting because...

i company philosophy is that buyers have more clout with vendors because they control the money, or

ii because the company is too small to warrant a separate expediting function?

2 Do expeditors contact vendors as soon as they believe the purchase award has reached them, first to demonstrate their seriousness about on time deliveries, and second to detect any new conditions that may change the vendors' ability to meet schedule? If no,

a Are the items being bought routine off the shelf items with a history of on time deliveries, such that purchasing resources can better be spent elsewhere? or

b Is the contractor temporarily in a peak workload situation which made initial contact at some later time necessary, and does the contractor plan to be more timely in the future? or

c Can the contractor justify a normally poor policy to contact vendors only when they become delinquent, or immediately prior to scheduled delivery?

3 Do expeditors have a suspense system (such as a tab run) showing contractual delivery dates) for use in prioritizing supplier contacts?

4 Is there a shortage report to show which requisitioned items remain unpurchased?

(b) Follow up

1 Do expeditors make follow up calls on a regular basis to confirm progress made since the initial expedite?

2 Do expeditors call upon buyers for assistance when they meet resistance or difficulties in their calls?

3 Are there field expeditors, either company employees, employees of affiliates, or independent contract expeditors who provide follow up assistance? If no,

a Does this contractor have no affiliates to enlist?

4 Do the CPSR sample show an acceptable level of delinquencies? If no,

a Was the problem attributable to tardy shipment of CFM, or GFM to the vendors by the prime contractor? or

b Government imposition of unrealistic delivery dates through the prime contract over the contractors objections?

c Poor purchase lead times? or

d Faulty expediting and follow up practices?

5 Does the engineering team member report to us that prime contract deliveries were caused by vendor problems? If yes,



a Was he/she able to identify which instances were caused by the purchasing system and which were caused by quality problems (rejections and failures at inspections)

6 If the contractor discovered a vendor would be late with its deliveries under a prime contract, did the contractor issue to the contracting officer any requests for priorities assistance (BXA Forms 999 (ITA form 999 may be used until exhausted)? If no,

a Is the explanation that the contractor was reluctant to tell its Government industrial specialist of potential late deliveries for fear of receiving requests for monetary consideration rather than help. If yes,

i Is that fear realistic, given the personalities of the parties involved?

7 Did the contractor notify the ACO of anticipated delays of vendor shipments, and if this is an Air Force prime contract, was a duplicate notice given to the PCO as required by AFLC FAR Sup. 52.212-9000?

8 Does MIS provide buyers or expeditors with tab runs of open and delinquent purchase orders to aid in their prioritization of work?

9 When contacting suppliers about delinquent orders, do expeditors inquire about other open orders, even if not delinquent, coordinating with other buyers if necessary?

10 When two or more buyers have orders with the same vendors, does supervision arrange to have one buyer or expeditor make contacts in order to minimize duplication of effort?

11 When expeditors obtain revised promised delivery dates from vendors, do they issue change orders, making the changes contractual, in order to ensure an enforceable default termination if that became necessary? If no,

a Does the contractor refrain from issuing such change orders because the its purchases tend to be small and the administrative cost outweighs the benefits, given the overall good performance record of its suppliers?

12. Does Contracts inform buyers when prime contract delivery schedules change so that follow up efforts can be adjusted and efforts redirected?

13 Does the amount of premium handling fees paid indicate poor scheduling or expediting practices?

(7) RECEIVING

(a) Receiving Department

- 1 Does Receiving unload and unpack shipments?
- 2 Have shipping companies levied demurrage charges against the contractor for unreasonably delaying their trucks at the Receiving dock for unloading for any of the following reasons?
  - a lack of scheduling coordination between traffic and other departments,
  - b lack of advance notice of shipments, or
  - c lack of containerized shipping arrangements, pallets, etc.?
- 3 Does Receiving effectively segregate incoming material by identification marking, Government end use, material type and inspection stage?
- 4 Does Receiving notify buyers quickly for assistance in identifying unmarked and mismarked shipments?
- 5 Were any incoming shipments held in Receiving more than 3 days before being forwarded to Stores or the user? If yes,
  - a Were the delays justified?
- 6 Does Receiving perform cursory examinations for quantity, part number, and apparent damage at time of delivery, documenting same for the record, and forwarding that information to buyers and Accounts Payable?
- 7 Does Accounts Payable effectively charge back to vendors monies for items rejected?
- 8 Is Receiving physically located near Stores and Receiving Inspection, and do they have material handling equipment (i.e., forklifts) equal to the task, in order to minimize damage to material during internal transit?
- 9 Does Receiving cooperate with Shipping to process "return to vendor" and rejected items?
- 10 Does Shipping ship GFM and CFM to vendors in a timely fashion, and in accord with instructions from buyers?
- 11 Does Receiving physically segregate identified material from unidentified material?
- 12 Is Government owned material separate from commercial material...
  - a when it is destined for cost type contracts, or
  - b it is covered by a DX or DO rating?
- 13 Are outgoing shipments separated from incoming shipments?
- 14 Is Receiving adequately staffed as evidenced by analysis of...
  - a annual value of material received,
  - b number of receiving reports processed,
  - c total weight of shipments,
  - d average number of pieces in per incoming shipment,
  - e number of issues to Stores and users,
  - f value of issues to Stores and users,
  - g value of inventory,
  - h idle employees waiting for work to come in?

15 Does the contractor have adequate controls to accommodate after hours receipts by security personnel?

16 Are there excessive numbers of "emergency" shipments going directly to users rather than through the normal Receiving process?

17 Are there adequate facilities to receive physically large shipments?

18 Is effective use made of automated material handling equipment?

19 Does the contractor return expensive containers and pallets to vendors for credit, or otherwise make use of reusable shipping materials?

20 Are overshipments set aside pending buyer disposition?

21 For bulk shipments, does Receiving verify quantity delivered by checking freight car and truck weights before and after unloading?

22 Does Stores unnecessarily duplicate Receiving functions such as recounting items received?

(b) **Receiving Inspection**

1 Is Receiving Inspection located next to Receiving to facilitate handling?

2 Is inspected and/or rejected material separated from material in Receiving to avoid mishandling?

3 Is there overinspection of material?

4 Does the contractor combine numerous shipments into efficient inspection lots to minimize inspection costs?

5 Does Receiving Inspection unnecessarily duplicate tests performed by vendors or the Government prior to shipment?

6 Does Receiving Inspection coordinate with other departments to avoid duplication of quality inspection (some of which is required for other departments)?

7 Is sufficient labor saving equipment in use to minimize inspection costs?

(8) TRANSPORTATION (Not applicable to software or studies subcontractors)

- (a) Does this contractor purchase sufficient quantities of hardware that it should have formalized transportation practices?
- (b) Does the Traffic Department provide buyers with a routing guide of low cost shipping modes, freight classifications, and instructions for seeking full load shipments?
- (c) Do buyers transfer the shipping instructions clearly from requisitions to purchase orders?
- (d) Does the contractor recover excess shipping costs from suppliers who failed to follow shipping instructions (either general, Duty Free Entry, U.S. Flag Carriers, or "Section 10721")?
- (e) Does the contractor prepare bills of lading (CBLs) properly, showing correct freight classifications and complete routings?
- (f) Did the contractor impose "Section 10721" freight rates on its suppliers (under cost type prime contracts)? If no,
  - 1 Does the contractor belong to a transportation association which obtains discounted freight service at or below that available through "Section 10721" of the Interstate Commerce Act?
- (g) Did the contractor notify the ACO of inbound shipments entering the U.S. from abroad subject to the Duty Free Entry clause?

(9) PACKAGING (Not applicable to studies subcontractors)

- (a) Does this contractor have formalized packaging and packing practices? If no,  
    1 Does this contractor subcontract out its packing and packaging, rather than perform that function in house? If yes,
  - a Does Traffic suggest qualified vendors to buyers for competitive bids?
- (b) Do contractor packaging specialists provide buyers with current and adequate packaging specifications to include in solicitations?
- (c) Was there evidence that suppliers overpacked their shipments,unnecessarily raising costs to the Government for packing materials?
- (d) Do contractor personnel have training to handle incoming hazardous materials?
- (e) Does the contractor consider internal handling, storage and reshipping in its packaging instructions to vendors?
- (f) Are reusable containers and returnable pallets employed to reduce handling costs?
- (g) Do Receiving, Receiving Inspection and Packaging personnel cooperate to discover flaws leading to the receipt of damaged or shortage material from suppliers?

## 8. SOURCE SELECTION

a. Contractors are required by FAR 52.244-5 to seek the maximum amount of practicable competition possible. Therefore, if competition is not obtained for a good reason, then single source purchases are acceptable, provided contractors can determine that the prices they obtain are fair and reasonable.

b. The Competition in Contracting Act (CICA) is not directly applicable to prime contractor dealings with subcontractors. Therefore, PSAs should measure contractor efforts against good business practices, industry standards, and peculiar customer requirements as reflected in prime contract clauses.

### (1) COMPETITION

(a) Is the contractor engaged in a bona fide "best value" purchasing system? If yes, see Appendix A for "best value" considerations.

(b) Do buyers compile source lists of potential bidders using approved vendor lists, part and vendor history files, Thomas Register, Sweet's Catalog and other industry resource references?

(c) Do buyers handle vendor selection for both material and material processing services identically?

(d) Do buyers take vendor needs for GFM and CFM into consideration in the source selection process?

(e) Does the contractor have copies of the Government's list of Suspended and Debarred contractors?

(f) Does the contractor peruse the list and purge suspended and debarred contractors from bidders lists, especially for subcontracts exceeding \$25,000?

(g) As a double check, does the contractor provide sufficient time to the ACO during the advance notification process to identify and object to subcontract awards to suspended and debarred contractors?

(h) Does the contractor have in plant a distributor terminal manned by a regular vendor (or a "dataphone" system), in order to speed up the ordering of recurring high volume items? If yes,

1 Are competitive source selection practices employed to select the distributors?

(i) Does the contractor have customer Qualified Products Lists (QPLs), parts history, and vendor source references like

1 market surveys

2 Sweet's Catalog

3 the Thomas Register

4 McRae's Catalog

5 the Buyer's Guide

6 trade directories

7 trade magazines

8 records of sales representatives' visits and presentations

9 reports from small business liaison officers from trade shows, congressionally sponsored procurement conferences, SBA sponsored events, minority business opportunity events?

(j) Does the contractor avoid soliciting products from prohibited and restricted sources as specified in FAR 52.225 and DFARS 252.225 clauses?

(k) Do the CPSR statistics indicate a healthy depth of competition (ranging from 2.3 to 3.0 responsive bids per competitive solicitation)?

(l) If the depth of competition is below 2.2, is it excused due to...

1 source direction from customers?

2 a highly complex product line with few qualified suppliers,

3 the purging of poor performers and high cost suppliers from the company's own approved supplier list in a TQM "best value" or similar initiative,

4 lack of supplier interest in aging product lines with little future business potential,

5 legitimate restrictions resulting from make or buy committees?

6 If the depth is above 3.0, is it excused because...

a the CPSR sample included large numbers of multiple awards to (e.g., temporary personnel agencies, commercial distributors, etc.)

b the CPSR sample consisted of a preponderance of orders in the lower dollar categories where competition is most available? If no,

i is the cause soliciting high cost and unqualified suppliers, fraudulent documentation (e.g., fictitious vendors listed on abstracts, bogus quotations, or failure to rotate solicitations among manageable groups of vendors on its source lists?

(m) Do buyers help bidders to understand solicitations, and help them to contact company technical personnel on matters beyond buyer expertise?

(n) Do buyers take precautions against bidders buying in or submitting bids just to remain on bidders lists?

(o) Do buyers judge bids on their responsiveness to solicitations, and not on unspecified factors?

(p) Do buyers work with technical personnel to resolve ambiguous and erroneous specifications which might thwart competition?

(q) Are buyers alert to danger signals, such as wide ranges in prices, large price increases, which could indicate mistakes in bids or that all bidders are not competing on an equal footing?

(r) Do buyers use "best and final" bidding procedures, and if so, do they follow them and handle them fairly (holding first bids confidential and not revealing helpful information to favored competitors)?

(s) Do buyers request bidders to include nonrecurring tooling costs as separate line items in order to determine whether tooling costs could be recovered within 12 months from the item cost savings?

(t) Do buyers have adequate support for awards to other than low bidders?

(u) Do buyers follow company policy on obtaining oral and written quotations?

(v) Do buyers handle mistakes in bids in accord with company policy?

(w) Do buyers consider factors other than price (e.g., delivery, CFM, GFM, geographic proximity, post warranty repair costs, etc.) which have price impact but are not explicit in quotations?

(x) Do buyers notify bidders in the solicitations when split awards are under consideration?

(y) Do buyers only count split awards as competitive when they give proportionally more business to the lowest priced of the two awardees?

(z) Do buyers avoid giving preferential treatment to bidders who are also commercial customers (reciprocity) putting the Government in the position of subsidizing the prime's commercial business?

(aa) Did buyers count any purchases as competitive for which they normally obtain multiple bids, but for extenuating circumstances only obtained one this time?

(ab) Are the percentages of both competitive awards and competitive dollars adequate for this contractor? Note: Analysts may use the following guide derived, using a standard deviation statistical technique, from previous CPSR reports as a guide:

	<b><u>R&amp;D</u></b>	<b><u>Software</u></b>	<b><u>Job Shop</u></b>	<b><u>Production</u></b>	<b><u>Major Sys Integrators</u></b>
<b>No. Range</b>	13-49	18-63	25-64	60-94	28-50
<b>Average</b>	35	41	46	80	42
<b>\$ Range</b>	6-56	1-54	15-82	28-96	2-14
<b>Average</b>	27	28	43	74	7

(ac) If the competitive statistics appear low, does the addition of commercial items and GSA catalog listed items to the figures for competitive awards make the contractor's competitive picture look acceptable? or

(ad) Were any of the awards "based on adequate price competition,"

1 in that they were awarded within 30 to 90 days of the award of valid competitive orders for the same or similar item at the same quantity with the same pricing, and/or

2 they are commercial items under FASA, and the price difference can be justified through price analysis?

(ae) **High Volume Machine Shops**

1 Do "traveling requisitions" list the previous and current suppliers and bidders such that buyers have immediate knowledge of who to solicit?

(af) **Dept. of Energy Contractors**

1 If this is a DOE contractor, does it have a copy of DOE's nationwide list of consulting scientists describing their specialties, in order to facilitate locating persons with special expertise?



(ag) **Construction Competition**

1 Do buyers use two step competition, conducting walk throughs with vendor representatives to show the work required before requesting final bids?

2 Do buyers notify bidders that completion bonds will be required, and are they obtained and filed in the official purchase folders?

(ah) **Purchased Labor and Long Term Services**

1 Do buyers solicit numerous companies aimed at issuing several blanket ordering agreements to the lowest 4 to 6 bidding companies for various types of skills, based on mark up (not labor rate)?

(2) SOLICITATION, RECEIPT AND EVALUATION OF PROPOSALS (Major Subcontracts)

- (a) Do buyers form source selection teams for particular major subcontracts?
- (b) Do buyers notify potential subcontractors of the flow down of any Integrated Logistic Support (ILS) requirements?
- (c) Does the contractor define major subcontracts as those of high dollar value, of high complexity, with flexible price provisions (e.g., CPFF, etc.) or unusual terms and conditions (e.g., Earned Value Management System (EVMS, formerly known as C/SCSC) reporting, etc.)?
- (d) Did buyers support Contracts by supplying subcontract pricing proposal sheets and subcontract proposal status reports?
- (e) Do buyers place all terms, conditions, ISO 9000 references, QA clauses, drawings, statements of work, military standards, and technical specifications into solicitations?
- (f) Does the contractor form preaward survey teams with active buyer participation?
- (g) Do buyers judge bidders on responsibility, and their quotations on their responsiveness, and then award to the low remaining bidder, price and other factors considered?
- (h) Do buyers provide technical evaluators with a point system with specified weights given to price, technical and administrative criteria?
- (i) Does the contractor use a sealed bid system, with the opening and closing dates strictly enforced, and a security system to protect the integrity of quotations or proposals until the date and time specified for bid opening?
- (j) Did SAs provide advance notification and justification, and receive prior consent from the ACO for the major subcontracts reviewed?
- (k) Did the contractor request Equal Opportunity Preaward Clearance for all first tier subcontracts exceeding \$10,000,000? If no,
- (l) Did SAs develop or decide upon
  - 1 preaward subcontract requisition plans
  - 2 bidders lists
  - 3 requests for proposals (invitations for bids, if a DOE contractor)
  - 4 options and include them in the requested pricing scheme
  - 5 determine the appropriateness of progress payment provisions (DCMD Price assistance is available on this issue
  - 6 any security provisions needed
  - 7 cost analysis assistance
  - 8 a negotiation plan
  - 9 fact finding
  - 10 usage, if any of Government facilities or Government property
  - 11 a small business plan
  - 12 firm pricing for 3 months (in accordance with UCC recommendations) and extend in writing if needed thereafter, so that subcontractors may not raise prices after prime contract award?
  - 13 determine a desirable subcontract type?
- (n) Are there semimonthly requisition status review meetings?

(o) Do buyers review subcontractor submissions with the intention of selecting the appropriate ones for inclusion in EVMS reporting?

(p) Where EVMS is a subcontract requirement, do buyers arrange for an evaluation of bidders' programs during the source selection process?

(q) Does the contractor hold presolicitation conferences to acquaint suppliers with subcontracting opportunities and to learn of vendor capabilities?

(r) Is non-proprietary data offered to potential subcontractors to encourage participation?

(s) Does the contractor participate in the Air Force or Navy Manufacturing Technology (MANTECH) Program insofar as it flows down special clauses to subcontractors enlisting their help to improve weapons systems and reduce their costs?

(t) Does the contractor have a Service contract with the Air Force to market the Industrial Modernization Incentives Program (IMIP) to subcontractors? If yes,

1 Has the contractor explained the IMIP process and Service requirements to subcontractors and informed the Air Force Project Management Office?

2 For subcontractors electing to participate, has the SA told them of the need to...

a identify high cost manufacturing areas,

b analyze cost savings potential,

c develop conceptual designs of factory layouts required to implement specific improvements,

d develop a plan to accomplish the transition, and

e develop detailed factory designs, integrate enabling technology into the manufacturing process, and make ready the supporting information management system, planning tools, etc. for implementation?

(u) Does Manufacturing assist buyers in source selection by rating supplier manufacturing capabilities

(v) In awarding resulting definitized subcontracts, do SAs...

1 ensure that all applicable solicitation provisions and negotiated terms are incorporated in the subcontract?

2 route proposed subcontracts for all required approvals?

3 notify unsuccessful bidders (for other than small purchases), and counsel small businesses generally on how their proposals were deficient? If no,

a Does company policy discourage such notification due to the expense involved, however, specific bidder inquiries may be answered as a courtesy?

4 notify successful bidders by formal award document with all prices or costs and fees identified? If no,

a Is it company policy to award letter subcontracts for all major purchases in order to get production started immediately, with definitization to follow as soon as possible? or

b Do SAs notify successful bidders by wire authorization or other acceptable means?

5 refrain from committing the company at the time of negotiations pending issuance of formal award notices?

6 debrief vendors (conduct post award conferences) to ensure there is an understanding of the subcontracted work?

7 write up memoranda of agreement in order to double check on vendor understanding of the results of negotiation sessions?

8 know when they have binding contracts...

a If vendor begins work that is only usable by this contractor,

b Does the contractor presume that vendors have accepted the orders if they receive no objection within 10 days, and company legal counsel has advised that there should be no problem?

c Does the buyer request and obtain signed acknowledgement copies of POs? or

d Does the buyer have reason to believe that the vendor has started work and will notify the buyer later (UCC)?

9 recognize when a binding contract has not been formed and promptly take action to establish new binding orders, such as under the following conditions, according to UCC:

a vendors refuse to acknowledge orders,

b vendors ship nonconforming goods,

c vendors return their own acknowledgement forms,

d buyers accept material changes to Government subcontracts in violation of prime contract terms (such as substitution of warranty clauses)?

e vendors make counter offers by substituting their own terms and conditions

10 ensure that terms and conditions, statement of work (SOW), request for proposal (RFP), and final award document all coincide? If no,

a Were the negotiated changes justified and allowable?

11 refer vendor exceptions to the terms and conditions to co. legal counsel? If no,

a are the exceptions obviously too minor to warrant referral?

12 notify the ACO 30 days in advance of any purchases of special test equipment?

13 ship GFM and CFM to vendors in a timely fashion so as not to impede subcontractor progress in completing the work?

14 submit subcontracts to a major subcontract review committee prior to final issuance?

### (3) SUPPLIER CONSIDERATIONS

(a) INTER-COMPANY TRANSACTIONS (Not applicable to companies without affiliates)

- 1 Does Finance alone handle such transfers through accounting practices?
- 2 Do Finance and Purchasing both issue documents transferring material or services from other affiliates to this contractor?
- 3 Does Purchasing alone handle transfers using purchase order or special forms?
- 4 Does Finance handle transfers resulting from make or buy committee or policy determinations, while Purchasing handles all other transfers?
- 5 Does the contractor know to request cost data from its affiliates only when requested by PCOs to support prime contract proposals?
- 6 Does the company treat interdivisional transfers as fulfillment of make decisions, not as purchase decisions?
- 7 Does the contractor comply with any IDWA agreement that it may have negotiated with the ACO (e.g., specifying which commodities will be transferred to affiliates)?
- 8 Are the receiving affiliates at least as efficient as the prime, such that the Government's interests are not damaged by the transfers?
- 9 Does the contractor inform its affiliates of the prime contract terms and conditions they must comply with?
- 10 Does DCAA report that the contractor complies with FAR 31.205-26 awards on old contracts by avoiding profit pyramiding (irrespective of what IDWAs show, charging the Government either the selling division's profit, charging the buying division's profit, or splitting one profit between the two divisions) If no,
  - i Does the contractor have only firm fixed price prime contracts where paying a second profit has no effect on the Government?
  - ii Does the contractor transfer only commercial catalog or market priced items, or items with prices "based on adequate price competition?"
  - b Has DCAA has already issued a "Form 1" to recover monies from improper transfers, indicating that there is enough evidence to support withholding approval on that basis?
  - c Does the contractor reimburse the Government for excess costs resulting from any policy of waiting until the end of the year before analyzing and adjusting IDWA charges for unintentional inclusion of profit? (e.g., in an MRP system, profit from the selling division may be included in the cost transfers and charged to Government contracts in January. Due to the expense of adjusting a large number of such transfers for all customers, the contractor may wait until December to identify all at one time which of the transfers actually went to items delivered to the Government and to credit the Government for the overcharges plus interest for the year)
  - d Does the contractor combine IDWA and make-or-buy determinations into one process by soliciting both affiliates and outside sources, and awarding subcontracts in the following order:
    - i to the affiliate if its bid with profit included is lowest;
    - ii to the affiliate if its bid is lowest with profit excluded (since the contractor will subtract the profit from billings to the Government); and
    - iii to the outside source if its bid is lowest after affiliate profit is deleted?

(b) SMALL AND SMALL DISADVANTAGED BUSINESS SUBCONTRACTING PLAN (When a Large Business is being reviewed)

1 What is the date of the last small business compliance review here by the DCMD Small and Disadvantaged Business Utilization Specialist?

2 What are the statistics on awards to small business, disadvantaged business and all businesses for the last two years?

3 Does the SADBUS give to this contractor's implementation of the Government's small business program a "satisfactory" or an "outstanding" rating? If no,

a Did the ACO verify that the official rating is the same as the interim "unsatisfactory" rating given by the SADBUS? or

b Did the SADBUS identify any deficiencies which the contractor is working to resolve before the ACO gives a new official rating? If neither,

i Did the ACO actually give an unsatisfactory rating?

4 Does it appear that the contractor complies with the "best efforts" clause (FAR 52.219-8) to assist small business?

5 Does the Small Business Administration conduct compliance reviews at this plant?

6 Do the statistics provided by the SADBUS (or the contractor's copies of its Standard Forms 295s) indicate a increase in awards to small and/or minority owned business subcontractors? If no,

a Did the SADBUS accept the contractor's explanation of the decline as reasonable (as evidenced by a lack of recommendation to improve in this area, or by explanation given by SADBUS)? If no,

i Is the contractor cooperating with the SADBUS to resolve the deficiencies?

ii If we have no SADBUS input, did the contractor give you a plausible explanation for the decline?

7 Does the small business procedure call for providing subcontracting plans for indefinite delivery orders, blanket orders, and undefinitized orders, as well as definitized ones?

(c) SMALL AND SMALL DISADVANTAGED BUSINESS (When a small business is being reviewed, (Usually no SADBUS input available)

1 Did the contractor use its best efforts to locate small business subcontractors during the review period?

2 **Under the Women Owned Business Program...**

a Does the contractor use its best efforts to encourage women owned businesses to participate in Government subcontracting?

(d) SUPPLIER RATING SYSTEM

1 Does company Quality Assurance, or the MIS function, include vendor delivery performance in its vendor rating system?

2 Is there an open DCMD Quality system survey?

a Were all deficiencies caused by forces outside the purchasing system? or

b Is the contractor cooperating with DCMD QA to correct the deficiencies?

3 Are the buyers sufficiently acquainted with their suppliers to detect shop overload, labor unrest, and local industry conditions, which could inhibit suppliers from meeting quoted deliveries?

4 Did the contractor disqualify any suppliers during the review period based on poor vendor performance in quality or delivery?

5 Does the contractor have an approved supplier list of its own from which buyers must choose their sources, unless they obtain Management approval to do otherwise?



(e) SUBCONTRACTOR RESPONSIBILITY

- 1 When judging new vendor responsibility, do buyers consider...
  - a shop overload,
  - b financial resources or ability to acquire them,
  - c capability to comply with required delivery schedule, and
  - d previous record of performance?
- 2 When buyers request them, does company Quality perform preaward surveys in a timely manner?
- 3 Do buyers screen potential suppliers against the "List of Parties Excluded from Procurement Programs" and take appropriate action to protect the Government's interests?
- 4 Do buyers affirmatively declare in their case file memoranda that the suppliers are deemed eligible for award?

**Software Subcontracts**

Does the contractor provide subcontract bidders at solicitation stage all information needed to ensure that subcontracted software conforms to prime contract requirements?

(f) SINGLE SOURCE AND SOLE SOURCE PURCHASING

(NOTE: see Advance Purchase Planning for prepurchase source development)

1 Does the contractor rely on any one rationale (as indicated in the CPSR sample) to an excessive degree (e.g., 80% for only qualified source")?

2 Where Engineering and Project Management tend to direct sources frequently, does Purchasing summarize and report those purchases to upper Management to control abuses?

3 Did unauthorized vendor contacts by program office or Engineering personnel compromise buyers' source selection alternatives?

4 Were there many true sole sources for which no competitive possibilities exist, and which might excuse a high noncompetitive rate?

5 Does the contractor utilize the Government's qualified products list (QPL) for its production purchases, of which most have no practical competitive potential?

6 Were PO sources documented as "customer directed" really directed in prime contract language?

a did the contractor exclude from "customer directed," sources that it proposed itself to the Government, and

b sources listed on customer source control drawings)?

7 Did the contractor comply with the Government's restrictions on sourcing of specific commodities?

8 Were any sources selected by the Contracts Dept. for marketing purposes which is justifiable in that the company was incapable of receiving prime contracts without the up front participation of suppliers with specialized expertise?

10 Did the contractor have a low competitive rate due to excessive reductions in its approve vendor list, such that everything is now single source?

11 If the contractor embarked on a "best value" subcontractor selection program, does it follow Appendix A of this guide fairly closely, and is it flexible enough to give new suppliers a realistic chance to be added to the approved supplier list?

12 Did the contractor conduct outreach activities to locate new suppliers, as most contractors commonly do, in order to comply with small business requirements?

13 Does QA respond promptly to buyer requests to qualify new sources?

14 Does the contractor reward its employees (buyers, engineers, etc.) who locate new suppliers? If no,

a Is it contractor philosophy that locating suppliers is a buyers job, and that providing extra reward is not proper management?

15 Did the contractor spend any of its own funds to qualify second sources? If no,

a Did the Government provide second source development money to this contractor? or

b Did the buyer demonstrate that the extra cost of developing new sources could not be recovered with 12 months or any other reasonable time frame?

16 Does the contractor have documented support for its reported cost savings from developing new sources?

17 In the spirit of the "Competition in Contracting Act," has the contractor voluntarily appointed its own subcontract competition advocate similar to advocates in Government offices?

18 Does Purchasing report to top Management its competitive achievement and significant single and sole source purchases?

(g) LETTER SUBCONTRACTS AND ADVANCE AUTHORIZATIONS

1 Does this contractor's letter subcontracts contain NTE prices, target definitization dates of less than 180 days away or completion of 40 % of the work?

a Does the contractor have satisfactory rationale for any other definitization policy it may have?

b Does the contractor employ letter subcontracts only when necessary for delivery schedule maintenance? If no,

i Do buyers use letter subcontracts routinely, because company policy is to turn subcontractors on to meet schedules while taking the time to thoroughly evaluate subcontract proposals?

2 IAW 1 above, do buyers actually definitize their letter subcontracts within 180 days or before completion of 40% of the work to avoid cost plus percentage of cost contracting?

## 9. PRICING

a. The following topics supplement the treatment on price analysis and cost analysis which are to be covered in all CPSR reports.

b. Adequate price and cost analysis are integral parts of these topics, and failure to do one or another at the proper time can undermine further steps in the pricing process.

### (1) NEGOTIATIONS

(a) Do buyers establish negotiating positions prior to entering into negotiations with suppliers?

(b) Did Engineers or persons outside Purchasing contact vendors to discuss pricing and undermine buyers' negotiating positions?

(c) Did the CPSR Team rate the contractor's subcontract negotiations effective in 90 % of the cases sampled?

(d) Did buyers include among the negotiated items trade discounts, delivery terms, FOB points, CFM, etc.?

(e) Do buyers mention the items mentioned all negotiated elements in their negotiation memoranda?

(f) Did buyers negotiate with all suppliers in the competitive range? If no,

1 Did buyers follow a common industry policy of negotiating only with low bidders in hopes of lowering their prices further? or

2 Did buyers follow an equally accepted industry practice of not negotiating with any suppliers where adequate price competition exists for fear that suppliers may pad future bids in anticipation of negotiations? (NOTE: Which ever policy is followed should be consistent so that buyers know how to negotiate with their bidders.)

(g) Did buyers resist attempts by vendors to negotiate away mandatory clauses?

(h) Did buyers inform bidders that progress payments were available in appropriate instances, and did they exclude the responses from the bid evaluation criteria?

(i) Did buyers point out obvious mistakes in bids, and otherwise encourage reasonable negotiation outcomes, rather than demanding maximum price concessions which could lead to vendor failure to perform?

(j) Do buyers use the expertise of persons from other departments, as necessary, in the negotiation process?

(k) Where awards were made to other than low bidder, did buyers negotiate into the subcontracts a downward price adjustment in case of late delivery?

(l) Do buyers use the results of their evaluation of subcontractor work measurement data in the negotiation process?

## (2) CASH DISCOUNTS AND TERMS

- (a) Did the contractor lose significant amounts of prompt payment discounts because of tardy payment by Accounts Payable (Finance)?
- (b) Does Accounts Payable take earned discounts offered on invoices even if not shown on PO copies?
- (c) Does Accounts Payable earn and take all discounts offered under cost type prime contracts?
- (d) Does Accounts Payable correctly refrain from taking discounts beyond the terms of the purchase orders (unearned discounts)?
- (e) For fixed price primes, does Finance consider the cost of money when determining which of the negotiated discounts to take (e.g., 2% 10 days, Net 30, etc.)?
- (f) Were any discounts lost due to paperwork delays in Purchasing, Receiving, Receiving Inspection, or lack of training of Accounts Payable personnel?
- (g) Did buyers recognize 3% to 15 % "prompt payment" discounts as disguised "trade discounts", and document them as such for their successor buyers?
- (h) If discounts are lost, is Purchasing at fault for slow processing of POs or change orders?
- (i) Does the contractor's MRP system include an Accounts Payable module to permit timely processing of vendor invoices and earning of discounts?
- (j) Are progress payments to suppliers paid soon after the receipt of corresponding payment from customers?
- (k) If the contractor has installed electronic payment software, does it process payments as soon as possible, or hold payments in abeyance to earn additional interest?

### (3) SELECTION OF CONTRACT TYPES

(a) Even though contractors often use language in their policies stating the maximum "firm fixed price subcontract types are preferred", does the contractor correctly select PO types consistent with those of the applicable prime contract and the nature of the risk involved?

(b) Do buyers arrange with vendors for adequate audit and access to records for flexibly price subcontracts?

(c) Do buyers avoid using "advise price," "NTE," and similar expressions on orders intended to be firm fixed price?

(d) Do buyers obtain management approval as specified in company policy before issuing subcontracts that are other than firm fixed price?

(e) Do buyers correctly handle "indefinite delivery" orders charged directly to Government primes as agreements like BOAs and not like subcontracts?

(f) For nonGovernment work, do buyers follow UCC guidelines for "indefinite delivery" orders to ensure that they meet the requirements of legal subcontracts?

(g) Does the contractor apply FASA commercial practices solely to fixed price subcontracts?

#### (4) LOW DOLLAR VALUE ORDERS

- (a) Does the contractor have an imprest or petty cash fund for very small purchases, and with specified persons designated to buy, and prudent restrictions on its use?
- (b) Is there a simplified purchase order system to reduce paperwork?
- (c) Is the average monetary value of low dollar orders above \$1000? If no,
  - 1 Does the contractor have a computer system which only permits one line item (SLIN) per order, making the average dollar value at some lower level? or
  - 2 Is the Contractor engaged in small volume work, R&D and work with engineering changes?
- (d) Does the contractor use open end orders (with various quantities and their quantity price breaks specified)?
- (e) Does the contractor use blanket ordering agreements (with specific volume, and pricing stated) to reduce paperwork and delays for repetitively purchased items?
- (f) Does a Corporate or Group office provide corporate purchase agreements for this plant or division to use in the same manner as BOAs?
- (g) Is there a paperless system for orders of less than \$5,000 or \$10,000? If no,
  - 1 Does the contractor exceed \$500 at all at its own risk? or
  - 2 Is there a paperless system for orders of less than \$500 (UCC)?
- (h) Are packaging and packing materials included among the items covered by BOAs, volume pricing agreements, etc.?
- (i) Do BOAs specify the names of persons authorized to make releases, set the payment and delivery terms and the applicable contract clauses?
- (j) Do BOAs require vendors to notify the contractor when the cumulative dollar values exceed 80% of expenditures?
- (k) Do buyers have a suspense system to alert them to prepare new BOAs prior to the expiration of the old ones?
- (l) Do buyers request graduated prices from vendors for BOAs, based on various volume levels which could be achieved over a year's time?
- (m) For BOAs with several quoted prices, does the contractor adjust payments up or down at year's end based on actual quantities ordered?
- (n) Does the contractor have a defensible rationale (such as a Pareto (80/20) analysis) for setting its own small purchase threshold, which should not automatically be the same as the Government's simplified purchase threshold?
- (o) Do buyers negotiate OEM agreement discounts with suppliers for commercial end products?
- (p) Do buyers negotiate volume end user agreements with commercial suppliers, like GSA schedules for commercial items?
- (q) Do buyers negotiate agreementx similar to Federal Integrator Agreements to obtain discounts on Government End use items?
- (r) Do buyers take advantage of Government Development Products Agreements to obtain discounts on products the Government uses in its experiments?
- (s) Does the contractor require varying levels of analysis and documentation for small purchases based on dollar value (e.g.,...



supplier

- 1 no competition and documentation
- 2 oral solicitation and competition, no documentation
- 3 oral solicitation and competition, bids recorded on an abstract
- 4 oral solicitation and competition, written quotation requested from winning
- 5 oral solicitation, written quotations from all bidders
- 6 written solicitation, written quotations from all bidders)?

(5) CHANGES TO SUBCONTRACTS AND PURCHASE ORDERS

(a) Are there relatively few subcontract changes to the subcontracts?

1 Were the changes mostly to change substantive matters, such as quantities, prices, delivery points, engineering change proposals (ECPs) etc. or

2 Were the administrative changes justified, such that they could not have been reduced in number by combining requisitions, better planning, improving clerical support, or some other method?

(b) Did SAs issue change orders to reflect negotiated revised delivery schedules and reset the clock in order to facilitate any termination for default that might be necessary? If no,

1 Did SAs wait until they had substantive changes to make before adding revised delivery schedules, in order to save the administrative cost of issuing excessive changes?

(c) Did the contractor avoid issuing change orders to bail out vendors, to correct problems with poor work statements, to correct errors made on original subcontracts, to make up for poor choices of subcontract types, or to accommodate slow funding from Finance?

(d) Did buyers obtain Cost or Pricing Data for all subcontract changes exceeding \$500,000 in the aggregate?

(e) Did buyers and cost analysts review such cost data, set negotiation targets and otherwise handle these transactions the same as they should for basic awards themselves?

(f) Did buyers seek prudent consideration from subcontractors requesting unusual changes to their subcontracts (e.g., changes in delivery schedule, etc.)?

(g) Were all modifications to purchase orders exceeding \$500 in written form(UCC)?

(h) Do buyers review vendor requests to change orders at no cost to see if they should really negotiate lower prices?

(6) ADMINISTERING MAJOR SUBCONTRACTS

(a) According to the contractor's data submission to us, do any contractor prime contracts contain the Air Force "Subcontract Management" clause, and if so, did the contractor comply with its provisions?

(b) Has the Air Force conducted, and has the contractor passed, a subcontract management review to determine compliance with the "Subcontract Management" clause? If not,

1 Did the contractor comply with this clause's requirements?

(c) **For Non-critical Major Subcontracts**

1 Do buyers, or subcontract administrators, serve as the recognized liaison between the contractor and its subcontractors, arranging appointment for technical personnel, participating in discussions which may affect prices, receiving technical reports, coordinating company policy on subcontracting matters, etc.?

2 Does the contractor have a subcontract management plan for major subcontracts?

3 Does the contractor impose any EVMS reporting requirements on major critical subcontractors not covered by EVMS?

4 Where EVMS does not apply, is there a surveillance program, including subcontractor reports (e.g., a computerized scheduling program like the Program Review and Evaluation Technique (PERT)) of subcontractor progress?

5 Are prime and subcontractor key personnel named in buyer records to show that the SAs are keeping abreast of project progress?

6 Do buyers communicate progress reports to the project managers and ultimately to the ACO if there are problems?

7 Are SAs assigned to project manager teams, and located in physically separate locations?

8 Do SAs work actively with project managers on production, quality and delivery problems?

9 Do SAs develop and implement

a post award subcontract administration plans

b semimonthly subcontract status meetings

c performance to budget reports

d subcontract change order (modification) log

e subcontract amendment summary

f action item summary

10 Do SAs look for fraud, such as

a repeated instances of defective pricing

b subcontractor failures to update cost or pricing data

c subcontractor denial of existence of known conditions

d unexplained transfers of costs between accounts

e subcontractors hiring personnel suspected of fraud elsewhere

f the presence of inexperienced personnel in subcontractor estimating departments?

11 Was there a recent DCMD Quality System survey? If yes,,

a Is the contractor working with DCMD QA to resolve the deficiencies? If no,

- i Is the buyer supporting his/her own Quality Assurance Dept. satisfactorily?
- 12 Are buyers effective in dealing with QA inspectors located at remote sites?
- 13 Do buyers, or contractor auditors, review actual incurred costs of subcontractors to detect defective pricing?
  - a lower actuals than proposed
  - b operations not performed that were proposed, ones which could have raised G&A and profit computations
  - c new pricing information or use of new suppliers that may have been known prior to negotiations, but not revealed on or before date of negotiation)
  - d revised subcontractor practices, which may have been known earlier but not revealed?
- 14 Are buyers aware of ISO 9000, MIL Q 9858A, MIL STD 45662, and MIL STD 1535A and their responsibilities to support company QA when enforcing those parts of these standards that affect quality control of subcontractors? If no,
  - a Does the contractor have a training program to acquaint buyers with their responsibilities in this regard?
- 15 Do buyers investigate compliance by subcontractors with FAR 52.222-4 on use of overtime labor for which the prime contractor is responsible, according to the clause?
- 16 Do buyers administer cost type, labor hour, time & material, and engineering service subcontracts responsibly
- 17 Do buyers' records indicate which subcontractors are in overrun condition?

(6) TERMINATED SUBCONTRACTS

(a) Did the Government terminate any prime contracts affecting subcontracts during the sample period?

(b) Did the DCMD termination contracting officer (TCO) retain convenience termination authority over subcontracts for the sample period, and did the contractor submit its Ts for C to the TCO in a timely manner?

(c) If the TCO did delegate this authority, does the TCO report that the contractor processed convenience terminations in an acceptable manner?

(d) If there were subcontract terminations for default, does the TCO rate the contractor's support for them as acceptable?

(e) Did buyers notify (by TWX, etc.) subcontractors to stop work immediately upon receipt of customer's notice of termination?

(f) Did buyers follow up with formal T for C document indicating date of termination, contact point with which to negotiate details, and procedure for submission of claims?

(g) If the contractor requests Gov't assistance in evaluating subcontracts, were the requests in writing, and did they identify the areas of coverage?

(h) Did the contractor audit subcontract termination proposals?

(i) Is there an agreement that the Government will audit subcontractor termination settlement proposals?

(j) Did buyers request accounting review of subcontract settlement proposals prior to requesting DCAA assistance?

(k) Did the Contractor make a good faith effort to return material to vendors for full credit (less a restocking charge or 25%, whichever is less)?

(l) Did buyers negotiate reasonable transportation, handling and restocking charges with vendors?

(m) Did buyers obtain financial and technical evaluations from company specialists on subcontractor settlement proposals?

(n) Did buyers seek no cost subcontract settlements, if appropriate?

(o) Did buyers notify customers of any special circumstances precluding stoppage of subcontractor work?

(p) If T for C was partial only, did buyers arrange for continuation of nonterminated portion of work?

(q) Did buyers take action to protect and preserve Gov't property and property likely to accrue to the Gov't, and arrange for their delivery to the Gov't?

(r) Did buyers notify the Gov't in writing of any legal proceedings against prime by subcontractors?

(s) Did contractor dispose of termination inventory in accord with TCO instructions?

(t) Did buyers identify material acquired prior to prime award and provide justification for inclusion in prime's settlement proposal?

(u) If the TCO requested assistance from another CAO in settling subcontracts, did the buyer furnish him/her with...

1 a letter of consent,

2 a copy of the terminated subcontract,

3 a copy of the termination notice sent by prime to subcontractor,  
4 a statement of payments made for completed items and any advance or partial payments,

- 5 a copy of subcontractor's termination claim,  
6 copies of any previous negotiations between prime and subcontractor,  
7 other pertinent information?

(v) If the Government exercised its rights to assume direct settlement of subcontractor termination, did the company...

- 1 provide a written assignment to the TCO,  
2 educate the subcontractor on the Government's rights and the need for the subcontractor to concur in writing to the assumption?

(w) If foreign subcontractors are involved, does the contractor cooperate with the TCO in carrying out any special duties?

(x) Does the contractor follow the same procedures in terminating subcontracts resulting from (not a termination of the prime) a change to the prime contract?

(y) Did the contractor obtain written permission from the contracting officer before terminating any subcontract not tied to a prime termination or change order?

(7) CLOSING OUT SUBCONTRACTS

(a) Does contractor policy consider subcontracts complete after physical completion?

If no,

1 Does the contractor wait until warranty expiration to close out subcontracts?

or

2 Does the contractor complete a financial audit before closing out subcontracts?

(b) Does the contractor mark closed subcontracts "closed" or "completed" after verifying final delivery or work complete?

(c) Does the contractor consider the implications for Government owned property and disposition of classified documents before marking subcontracts closed?

(d) For cost type subcontracts, does Finance perform timely audits?

(e) Do SAs use checklists to ensure that actions are complete prior to major subcontract closeout?

(f) Does the contractor have provision for storage of closed out subcontracts for whatever period of time its contracts call for?

## **E. Compile and Analyze Statistics**

1. The CPSR Model program automatically sorts and prints spreadsheets detailing the data gathered from the sample purchase orders. It also compiles statistics and prints statistical summaries and exception reports. If DLA Form 604 is used, compute the statistics manually, comparing the total source selection and pricing column totals to detect computational errors. On request, the team may provide copies of spreadsheets and exception reports to company personnel. CPSR Model exception reports are valuable in detecting unfavorable trends which require system oriented adjustments.

2. Each member of the team should examine the statistical summaries and share their opinions on what trends appear to exist, and what directions to take for the rest of the review. Negative indicators occurring early in the year only may indicate that the contractor already has taken corrective action. Purchase lead time and delivery statistics deserve particular attention. For example, 30 days lead time may not necessarily be too short for some products, and 90 days is definitely not enough for long lead items.

3. Verify the facts concerning any apparent public law violations.

a. Cost or Pricing Data requires obtaining one or more cost data submissions upon which prime and subcontractor negotiations were based, and a certificate that the most recent cost data was accurate, current and complete (analyzing cost data is a good business practice requirement, not a legal requirements).

b. Cost Accounting Standards requires obtaining disclosure statements or exemption certificates from subcontractors and flowing down the CAS clause in qualifying subcontracts (notifying the ACO is a regulatory, not a legal, requirement).

c. Notifying contracting officers before awarding subcontracts under cost plus fixed fee prime contracts is a legal requirement (notifying contracting officers of pending awards under other types of prime contracts, and obtaining ACO consent in all cases, are regulatory requirements, not legal ones).

d. Contractors failing to definitize their letter subcontracts before 40% of the work is accomplished (or within 180 days - whichever comes first) is a violation of FAR 52.244 clauses and public law.

4. One or two violations of public law among a large number of compliances, may not constitute major system deficiency. A contractor failing to comply in its only opportunity maybe a serious matter. The team must analyze the causes and circumstances of each situation to arrive at an outcome which also is in the best interests of the Government. In most situations, negative statistical indicators provide a basis for further inquiry, and should not be used alone to justify recommendations for corrective action.



5. When comparing CPSR team statistics to those submitted by contractor internal audit, team members should determine whether the results are similar enough to support the contractor's conclusions. If the results are dissimilar, the team should attempt to discover a reason for the finding through discussions with the contractor liaison, and/or select an additional sample of purchase orders and subcontracts on which to base further analysis.

#### **F. Interview other Contractor Personnel:**

1. Interview other contractor personnel on issues resulting from the analysis of statistics and also on areas not covered in the sample. During the sampling of purchase order process the PSAs may have questions concerning some of the files that were reviewed. This does not necessarily mean that the files are deficient, but it does mean that further explanation or clarification is needed. Typically the questions are answered by the cognizant buyer or senior purchasing/subcontracting management. The response may be oral or written depending on the complexity of the question and the response. There will also be occasions where the PSAs will have to interview personnel from outside of the purchasing organization regarding questions that are not under the control of the purchasing personnel. For example, there may be a question regarding the requisitioning process.

2. Interviews may also have to be conducted with personnel from outside of the purchasing area covering topics that may be included in the CPSR report but are not directly touched on in the sampling process. The following, though not all encompassing, covers some of the areas that should be addressed; standardization, value analysis, make-or-buy and ethics.

#### **G. Final Review Team Inputs.**

Prior to the conclusion of the on-site portion of the CPSR, the review team must review the input from all team members to decide if there are still any areas where further investigation is needed. If a team member had indicated that there were problems in certain areas, these should have been addressed with the contractor during the course of the review. If there is disagreement with the contractor or the contractor has proposed a solution to the problem, the team captain is responsible for coordinating resolution.

#### **H. Write Preliminary Observations and Findings.**

Once all on-site activities have been completed, it is time to assess the results of the reviews. The team captain will write preliminary observations and findings that will provide the basis for the exit conference discussion and formal CPSR report. The PSAs will need to consider the results of the sampling, and the team members' input. After the statistics have been reviewed, along with all of the other information generated during the review, it is now time to decide if any problems found are serious enough to warrant presenting formal recommendations to the contractor requiring corrective actions. It should be recognized that there may be situations where isolated non-systemic problems are found. While a formal recommendation may not be warranted, the problem should be addressed in the exit conference and discussed in the CPSR report to preclude problems in the future.

#### **I. Informal Exit with Contractor's Purchasing Staff.**

It is a good practice to have an informal exit meeting with the purchase personnel. It provides the purchasing personnel with advance warning on what will be discussed at the exit

conference. It provides the purchasing staff with the opportunity to provide additional information or evidence that could have an effect on the review team's findings.

#### **J. Discuss observations/findings with the CO.**

The CO must be kept apprised of the progress of the review. There are at least three areas that should be discussed with the CO. The first is to confirm the CO's attendance at the exit conference. Secondly, and most importantly, the review team should go over the results of the review and then discuss the proposed recommendations. Depending on the desires of the CO, an in-depth presentation may be required or a brief summary may suffice. The Team Captain and the CO have an understanding of the formal recommendations. Finally, the ground rules for the exit conference should be discussed. It is preferable that the CO letter transmitting the findings and recommendations be signed at the conclusion of these discussions. In the event that the CO will be unable to attend the exit conference, the Team Captain will still need to brief the CO as explained above. However, in addition, to this, he/she will have to explain that an informal list of findings may be presented to the contractor at the exit conference. This document should list the recommendations, and alert the contractor that the CO's formal letter with recommendations will be forthcoming. It is also a good practice to invite the Commander of the CAO or their representative to attend the exit conference.

#### **K. Formal Exit Conference:**

1. On the last day of the in-plant portion of the review, the review team will hold an exit conference with the contractor's top management. A letter with recommendations for improvement of the purchasing system will be presented. It is not necessary that the exit conference be held on the last day of the review since schedule conflicts may arise.

2. The exit conference should always be held with the contractor's upper management to make sure that they are aware of any serious problems that may have been uncovered. The letter with recommendations is given to the top contractor official in attendance. The team captain will usually explain the basis for the recommendations, may review the statistics resulting from the sampling process, and give the overall results of the review. It can usually be assumed that purchasing management will have briefed upper management on the results, so an in-depth explanation of every facet of the review may not be necessary. If the team captain should provide responses to unanswered questions as soon as practice. Positive observations should also be provided.

3. The CO's letter with recommendations will request that the contractor respond with their corrective action plan to the CO. The team captain highlights this during the exit conference, and request that the contractor provide copy of their response to the team captain.

#### **IX. Write Report and Recommendations (Sub-process C7)**

- A. The summary format shown at Exhibit A identifies the contractor, process reviewed, and any recommendations for contractor corrective action. A decision will be made to write a

summary (Exhibit A) or an expanded report (Exhibit A + B) in coordination with the customer. Teams may supplement their reports, based on agreements reached with the customer, and their risk assessment of purchasing system conditions discovered on-site. CPSR teams shall honor NASA's and others requests for expanded report coverage. Evidence of CPSR supervisor's review of the final report should be held in the official file. Work papers should be maintained in CPSR files in case of customer request for additional information at a later date. Other topics included will be matters of judgement, based on the nature of the findings.

1. Report paragraphs should state conditions as they exist, any discernible trends, and their impact on efficient operations and implementation of prime contract requirements and good business practice. Comments on excellent performance, recommendations, and suggestions must only be made in the designated paragraphs of the summary, and not repeated in topical paragraphs.

2. The team will include only those statistics, generated manually or by the CPSR model, which are relevant to the paragraphs selected to satisfy the customer's request. Statistics will be included in the paragraph itself, and not attached as a report appendix.

B. The expanded coverage format shown at Exhibit B is in addition to all information provided in Exhibit A. The following exceptions apply:

1. When contractors have submitted internal audit reports on a portion of their purchasing system to the Government, the CPSR team should attach copies of those reports to the summary, and include a paragraph stating the Team's validation method and results. The summary should not duplicate topics included in these internal audit reports.

2. When contractors submit internal audit reports, CPSR teams may substitute those reports for Exhibits A and B. They will attach an addendum describing the validation performed and any additional topics desired by the customer but not covered by the internal audit.

EXHIBIT A

**SUMMARY REPORT FORMAT**

**CONTRACTOR'S COMPLETE NAME AND ADDRESS**

Corporation Name:  
Group Name:  
Division Name:  
Subdivision Name:  
Affiliate Name:  
Street Address:  
City, State, (Country if applicable), Zip Code

**ORGANIZATION CONDUCTING THE REVIEW**

Organization Name:  
Address:  
Name of Team Captain:  
Team Captain Phone No:  
Period of In-Plant Review:  
Period Covered for this Review:

Case Number:  
Report Date:

Signature of Team Captain

**UNLESS PERMISSION IS RECEIVED FROM THE CONTRACTING OFFICER THIS REPORT SHALL ONLY BE DISTRIBUTED IN ACCORDANCE WITH FAR SUBPART 44.307.**

**RELEASE OF THIS REPORT IS COVERED BY THE FREEDOM OF INFORMATION ACT, 5 U.S.C. 552.**

**THE SUPPORTING WORK PAPERS APPLICABLE TO THIS REPORT ARE RETAINED IN THE FILES OF ORGANIZATION CONDUCTING THE REVIEW.**

**RECOMMENDATION OF THE CPSR TEAM TO THE CO:** Grant (Withhold) approval of the contractor's purchasing system.

**THE GOVERNMENT IS NOT PRECLUDED FROM QUESTIONING ISSUES OR COSTS WITHIN THE CONTRACTOR PURCHASING SYSTEM REVIEW CENTER**

## 1. REVIEW TEAM MEMBERS AND REVIEW METHODS

- a. The review was performed by:

(Name) (Organization)

- b. Contractor personnel contacted:

(Name) (Position)

c. Review methods included: evaluation of implementation of prior recommendation(s); analysis of purchasing ethics, procedures, and practices; examining samples of recently awarded subcontracts and purchase orders; and, discussions with the contractor's purchasing/subcontracts and management personnel.

## 2. PREVIOUS STATUS OF PURCHASING SYSTEM

- a. Prior Review

A CPSR was performed in month/year (CASE NUMBER). The CO granted approval of the Contractor's purchasing system by letter dated \_\_\_\_\_. (The CO withheld/withdrew approval of the contractor's purchasing system approval by letter dated\_\_\_\_\_)

- b. Status of Prior Recommendations

As a result of the prior review, there were \_\_\_\_\_ recommendations transmitted to the Contractor by CO letter. The team's current review disclosed that \_\_\_\_\_ recommendations were implemented and recommendations are withdrawn based on clarifications].

### Recommendation

### Status

- |     |                 |
|-----|-----------------|
| (1) | Implemented     |
| (2) | Implemented     |
| (3) | Not implemented |

## 3. OVERVIEW OF CONTRACTOR'S BUSINESS OPERATIONS (incl statistical reports)

#### 4. COMMENTS ON THE CONTRACTOR'S EFFECTIVENESS IN MAJOR PURCHASING AREAS:

##### a. Extent of Competition

State the quality and depth of competition (number of quotations per solicitation) received, including the weights given to price and other factors. Discuss the responsibility of the vendors responding, and their ability to perform, (e.g., plant capacity, etc.).]

##### b. Applicability and Implementation of Best Value Purchasing Methods

##### c. Control of Single Source and Sole Source Purchasing

State the ratio of competitive to noncompetitive awards, the contractor's rationale for single and sole source awards, and whether those rationales were justified by documentation.

##### d. Small Business, Small Disadvantaged Business and Women Owned Business Programs

##### e. Price Analysis and Cost Analysis Methods

##### f. U.S. Public Laws (without statistics)

(1) Public Law 87-653, "Truth in Negotiations"

(2) Public Law 100-679, "Cost Accounting Standards"

(3) Public Law 101-121, Limitation on Use of Appropriated Funds to Influence Certain Federal Transactions

(4) 10 U.S. Code 2306(e), Advance Notification and ACO Prior Consent

##### g. Major Subcontractors

##### h. Other Areas

#### 5. CURRENT RECOMMENDATIONS TO THE CONTRACTOR

#### 6. DISTRIBUTION

## EXHIBIT B

### **EXPANDED COVERAGE OPTIONS**

1. Management Attitude Toward Purchasing
2. Purchasing Organization (with Organization Chart)
  - a. External Purchasing Organization
  - b. Internal Purchasing Organization
  - c. Training and Experience of Purchasing Personnel
3. Policies and Procedures
4. Purchasing Forms
5. Purchase Order and Subcontract Clauses
  - a. Restrictive Clauses
  - b. Special Clauses
  - c. Side Agreements
  - d. Statistics on Public Laws
    - (1) Truth in Negotiations (PL 87-653)
    - (2) Cost Accounting Standards (PL 100-679)
    - (3) ACO Notification and Consent (10 U.S. Code 2306(e))
6. File Documentation
7. Quality Assurance/Program Integrator/Industrial Specialist Input
  - a. Joint Reviews
  - b. Value Analysis/Value Engineering
  - c. Prime Control of Subcontractor Surveillance and Reviews



- d. Standardization
- 8. Make-or-Buy Program
- 9. Material Estimating/Budget Control (should not be necessary if DCAA has issued a Contractor Estimating System Review report in the last 12 months)
- 10. Developing Purchase Requirements
  - a. Advance Purchase Planning
  - b. Identifying Purchase Requirements
  - c. Establishment of Schedules/Purchasing Lead Time
  - d. Inventory Control
  - e. Material Control Methods (should not be necessary if DCAA has issued a MMAS report in the last 12 months)
  - f. Expediting and Follow-up of Purchase Orders
  - g. Receiving
  - h. Transportation
  - i. Packaging
- 11. Source Selection
  - a. Competition
  - b. Solicitation and Receipt of Proposals
  - c. Supplier Portfolio
    - (1) Intra-company Transactions
    - (2) Unaffiliated Companies
      - (a) Small Business Subcontracting Plans (obtaining such plans)
      - (b) Supplier Rating System
      - (c) Subcontractor Responsibility/Vendor Performance Rating

- d. Single and Sole Source Purchasing
- e. Small and Disadvantaged Business Subcontracting (level of awards to such suppliers)
- f. Letter Subcontracts and Advance Authorizations

## 12. Pricing

- a. Selection of Subcontract Types
- b. Conduct of Negotiations
- c. Cash Discounts and Terms
- d. Handling Low Dollar Value Purchases
- e. Purchase Order Changes/Modifications
- f. Subcontract Terminations
- g. Subcontract Close Out

## APPENDIX A

### **BEST VALUE SUBCONTRACTING CONSIDERATIONS**

#### **A.1 References**

- a. DLA (One Book) 5000.4; Part VII, Chapter 4, CPSRs
- b. FAR 10 & DFARS 210, Specifications, Standards, & Other Purchase Descriptions
- c. FAR 11, Acquisition & Distribution of Commercial Products
- d. FAR 15.6, Source Selection
- e. FAR 44, Subcontracting Policies and Procedures
- f. FAR 52.244-5, Competition in Subcontracting
- g. DFARS 211.7001(b), Definition of Competition
- h. DFARS 215.804-3 (b), Adequate Price Competition
- i. DFARS 215.806, Subcontract Price Consideration
- j. DFARS 244.3, Contractor Purchasing System Reviews
- k. Comptroller General Decision No. B-255236, -2 & -4, 18 Feb 94, and other cases cited by it (Proposals with Higher Technical Score but Higher Cost That Are Most Advantageous)
- l. OFPP Policy Letter No. 92-5, 30 Dec 92

#### **A.2 One Book Guidance Implemented by This Appendix**

The One Book states in Part VII, Chapter 4, B.3:

"CPSR teams review prime contractor and higher tier subcontractor purchasing systems with the intent of improving subcontractor negotiations and ensuring the Government receives the benefit of "best value" from subcontractors."

#### **A.3 Background, Policies, and Goals**

This appendix is aimed at assisting the Contractor Purchasing System reviewers in understanding what best value subcontracting really is. It is intended to remove any actual or perceived impediments to the use of best value practices by prime contractors in selecting

suppliers. Also, this guidance is designed to reduce the risk of misuse of the concepts of best value contracting.

The goal of best value contracting is to promote more reliable contract performance, enhanced product quality, greater business stability, and lower costs of doing business. These factors, particularly at the subcontracting level, can be especially important to small and small disadvantaged businesses, because excellent performance can give them a significant advantage in competing with large businesses. Purchasing system reviews should recognize the balance of priorities needed to allow best value subcontracting to realize its potential benefits.

Best value contracting practices are the standard in acquisitions by commercial buyers and are widely used by the Government in selecting prime contractors. Recognizing the major percentage of Government procurement funds that are spent for subcontracted effort and the technical, quality, and schedule impacts of subcontractor performance, it is extremely important that best value subcontracting be emphasized.

The Government's intent has always been to obtain the best value in its contracting, whether it be at the prime or at the subcontract level. For some time the accepted belief, particularly at the subcontract level, was that best value was obtained by selecting the lowest priced bidder meeting the Government's minimum requirements for the instant, competitively bid procurement. We have learned that obtaining the best value supplier often requires the assessment of factors other than price (e.g. past performance, risk, quality, etc.).

#### **A.4 Definitions**

a. "Best value" means any basis for award where factors in addition to cost or price will be considered in some relative order of importance.

This very simple definition of "best value" was chosen over various more complex alternatives. It both preserves the special emphasis on cost or price in the source selection process, and makes it clear that consideration of other factors is to be within the context of their relative rank with one another as well as with cost or price. It makes it clear that a best value award will always involve a tradeoff between price or cost and other criteria, such as risk, performance, adaptability for future use and growth, etc.

The term "best value" may apply to any phase or phases or to the full life of the anticipated acquisition and operation and maintenance phase of a system. Also, the term may apply to acquisition and use of a category of items throughout some specified period of time, regardless of the number of separate contracts or options used for such acquisitions. Such categories might include such items as spare and repair parts, services, raw materials, fasteners, and stock items used for multiple systems or unrelated to any system. The terms "most advantageous", "lowest evaluated cost", "lowest overall cost and technical risk", "lowest evaluated price (considering all evaluation factors)", and "greatest value", mean the same as "best value". These terms may include all elements of economic value and, when applicable, military mission, national security, and human safety considerations not amenable to economic

quantification. For a competitive procurement, it is essential that the contractor's solicitation or some procurement plan known to the subcontractor specify or reference the elements to be used as source selection criteria. The solicitation shall include the criteria on which a best value determination is to be based, including any criteria related to capabilities for potential follow-on contracts. Contracts or agreements intended to support multiple customers or to support more than one prime contract or system, should specify or reference the conditions (which may vary among customers) on which its continued application are dependent, and the period of time during which the term "best value" could be applied to a family of contracts. Thus, the extended definition of "best value" for a particular procurement is in the solicitation.

The term "best value" may apply to situations in which the contract(s) or agreement(s) are not solicited on a competitive basis (see definition of "competition" in next paragraph). In these cases, the decision to solicit only one source will be based on factors in addition to cost or price, and the basis for this "best value" selection and how these factors applied will be documented by the contractor. This documentation will reveal how "best value" applies to this particular procurement.

b. "Competition" means the solicitation of offers from more than one potential source where award will be made to the responsive, responsible offeror whose bid or proposal is most advantageous to the Government, price and other factors considered. When a solicitation contemplates more than one award, the offerors independently compete for a proportionate share (0 to 100 percent) of the award to be determined by the evaluation criteria specified in the solicitation. The term "competition" includes contracting using full and open competition (see FAR 6.1 and FAR 6.2) and other forms of competition authorized in FAR 6.3.

This definition of "competition" evolved from a Government-Industry coordination and is now published as DFARS 211.7001 (b). While accommodating best value by its reference to "other factors" and supporting dual source procurements, it put best value within the scope of the current FAR Part 6 treatment of the subject.

Government acquisition regulations establish different standards for the type and level of competition required for the award of prime contracts by the Government versus the award of subcontracts by prime contractors or lower tier subcontractors. The Government's solicitation and award of prime contracts is governed by the statutory "full and open competition" standard, requiring that all responsible offerors be permitted to compete. Subcontracting by prime contractors and lower tier subcontractors under Government contracts is governed by a regulatory clause, FAR 52.244-5, "Competition in Subcontracting". This subcontracting competition standard requires subcontract awards "on a competitive basis to the maximum practical extent consistent with the objectives and requirements of the prime contract".

The Competition in Subcontracting clause's "maximum practical extent" standard evolved decades ago from what used to be the standard justifying negotiation. Negotiation was originally considered noncompetitive, versus sealed bidding which was considered competitive. The "maximum practical extent" standard applicable to competition in subcontracting was the same standard for justifying "noncompetitive procurements". Even though a negotiated procurement

was considered noncompetitive, the Government still wanted to maximize competition to the extent practical. By superimposing competition requirements on a noncompetitive process, the "maximum practical extent" standard recognized that there are degrees of competition and alternative ways of achieving competition.

The "full and open competition" standard was established by statute in the Competition in Contracting Act (CICA) in 1984. One primary purpose of this new standard was to recognize that a procurement can be just as competitive using negotiation procedures as sealed bidding procedures. The negotiation/sealed bidding differentiation between noncompetitive and competitive procurements was eliminated in favor of a new approach. The new approach provided for either "full and open competition" or for "other than full and open competition".

Full and open competition could now be achieved using either negotiation or sealed bidding procedures.

The CICA "full and open competition" standard applicable to the award of prime contracts was defined in terms of how many responsible sources are permitted to compete, rather than the nature of the solicitation and whether it was a negotiated or sealed bid approach. It is only "full and open competition" if all responsible sources are permitted to compete.

When Congress enacted the CICA, it did not make it applicable to subcontracting. In doing so, Congress intended to provide prime contractors and subcontractors more flexibility in selecting their suppliers than the Government is afforded in selecting a prime contractor. It declined to apply to subcontracting the "full and open competition" standard and its definitional requirement to permit all responsible sources to compete.

### **A.5 Application of Procurement Regulations**

Procurement regulations shall be applied to negotiated contracts and subcontracts in a manner that will assure awards to sources that reasonably could be identified as offering the best value to the Government unless other criteria are required by law or regulation to take precedence for certain source categories (such as small or small disadvantaged business). A reasonable identification is one that, relative to solicitation-prescribed criteria, is justified by a documented best value analysis. The best value analysis needs to show a rational basis for a business judgment that the Government expects to receive benefits commensurate with or that outweigh any price premium or, when awarding to the lowest offer, that no other offer was expected to provide such benefits. It shall relate any readily quantifiable and any pertinent nonquantifiable elements of the circumstances that justify the award and be consistent with all of the source selection criteria for the solicitation as provided to or discussed with all the offerors. It must consider the overall contract costs in any cost/technical trade off. Awards may be based on price or cost alone when that single criteria defines best value, or that, aside from cost or price, the evaluation of other criteria are considered equal among the competitors. When selection criteria other than price or cost alone are identified to competitors, a cost/technical tradeoff is required.

The mandatory application of best value to "all" acquisitions (except invitation for bid (IFB) awards, small business set-asides, 8(a) contractors, negotiated awards under simplified acquisition threshold, or other mandated exceptions) reflects the concept that awards based on price or cost alone should be because that single criteria defines best value, or that, aside from cost or price, the evaluation of all other criteria are considered equal among the competitors.

This is definitive statement of the reasonable controls, from the point of view of FAR Part 15.6, that need to be placed on awards based on best value. At the same time, it clarifies the circumstances to which it should be applied to realize its potential for reducing defense costs while increasing the quality of procured supplies and services.

A big picture perspective looking at families of contracts, rather than seeing only individual contract actions, is needed. It is this perspective of competition in the commercial market place that yields the benefits to commercial buyers that also is desired by the Government. Such benefits include those resulting from single subcontracting plans and goals for an entire company or product division. Government buyers are not constrained to show contract-by-contract justifications of awards and to require a separate set of plans based only on the perspective of the instant contract as an end in itself.

However, the intention to apply broad perspective needs to be addressed prior to release of solicitations, to be tested by all the reviewers and by the competitors to whom it is revealed. Also, it is appropriate to allow families of contracts, based either on the phases of a major system acquisition or on acquisition of a category of commodities over a five year or other reasonable period, to be covered by one competition and one best value analysis. The sharing of all selection criteria with the competitors is to make that the competition is for the full scope of requirements to be covered by the contemplated contract or family of contracts and follow-on procurements identified in the solicitation as important to the Government, and to the higher tier contractor. Such understanding should motivate development of better proposals and reduce the confusion that sometimes denies the Government superior offers.

#### **A.6 Evaluation Factors**

The evaluation factors should include those criteria appropriate for basing source selection on best value to the Government. See preceding definition of best value and the related discussion of solicitation requirements.

While the lowest price or lowest total procurement cost to the Government is properly the deciding factors in some source selections, in all acquisitions, the source whose proposal offers the best value to the Government should be selected, unless other criteria are required by law or regulation to take precedence for certain source categories (such as small or small disadvantaged business).

The requirement to specify any best value criteria in the evaluation factors will assure more comprehensive review of the merits of basing an award on factors in addition to price. This language reflects the existence of a definition of best value so that the term can replace undefined

synonyms such as "greatest value", "in terms of performance and other factors", "lowest aggregate cost", etc. Use of the standard term will allow better understanding and control of the general concept. The mandatory application of best value to "all" acquisitions (except IFB awards, 8(a) contractors, small business set-asides, negotiated awards under simplified acquisition threshold, or other mandated exceptions) reflects the concept that awards based on price or cost alone should be because that single criteria defines best value, or that, aside from cost or price, the evaluation of all other criteria are considered equal among the competitors.

When following source selection procedures where a contract will be awarded to the responsible offeror submitting the lowest evaluated price (considering all evaluation factors), there should rarely be a need to obtain certified cost or pricing data, although some financial data may be required to determine cost realism or to insure that the offeror adequately understands the scope of work (regardless of the type of contract anticipated).

Source selection requirements for competition are to be so implemented as to maximize competition relative to all source selection criteria identified in the solicitation. Subcontractor selections, like prime contractor selections, need to be based on solicitations that make it clear that the subcontract is for the arrangement that will, from the broadest perspective, represent the best value for the Government.

The Government places major reliance on competitive market factors to assure that is procurement costs are fair and reasonable. Because subcontract costs are such a large portion of overall contracting costs, prime contractors' purchasing systems also place major reliance on competitive market forces. Although all the same categories of noncompetitive procurements and all the same reasons for justifying them are available for subcontracts, prime and higher tier subcontractors are relied on to select and manage their subcontractors and other supply sources subject only to those Government constraints or oversights that are specified in the prime solicitation or prime contract or in applicable public laws.

Competition, as a means for motivating best value may, by the criteria used for source selection band by criteria for future pricing and performance, be achieved for a series of separate contracts, for separate orders under contracts, for contract options of for items procured under an agreement available to support multiple contracts. When a supplier has been selected on the basis of competitive best value as described above, or through a teaming agreement (see Appendix H, Acronyms/Definitions) the supplier was inherently part of the prime or higher tier award, the competition requirement is thereby satisfied for the award of a follow-on subcontract, option, order, or allocation contemplated by the competitive initial agreement or the previous buy of the same items. The prior subcontract performance has to have been satisfactory and either price analysis or cost analysis, as applicable, and appropriate technical reviews are used to establish the reasonableness and sufficiency of the action. Although not required by the Government in such a case, the contractor may choose to compete the procurement again and make a best value award based on the results.

When, under the conditions described above, an award is made, or (if consent is required) is proposed, to a subcontractor other than the lowest price offeror, or without any additional



competition, it will still be considered to be awarded using competitive means, providing the contractor justifies in writing, at the time of the initial selection, that:

(a) The prior subcontract or agreement was awarded by competitive means and it was disclosed to the original competitors that:

(1) Follow-on acquisitions were contemplated; and

(2) The subcontractor would have to meet specified criteria, including satisfactory performance of the subcontract or agreement, to be considered for a follow-on acquisition.

(b) It was clear to the competitors that the selection would be based on a trade off between cost and other criteria;

(c) The subcontractor's performance had actually proved to be satisfactory; and

(d) There is a probability that a replacement source would result in at least one of the following:

(1) Substantial duplication of costs to the prime or higher tier subcontractor;

(2) Unacceptable delays;

(3) Increased cost, schedule, technical, or performance risk;

(4) Decreased product quality; or,

(5) Increased life cycle costs to the Government.

A subcontract and its follow-on subcontracts for continued development or production of items generally equivalent to items that were the subject of the prior subcontract may be awarded to a subcontractor, other than the lowest price offeror, or without any additional competition. This is considered to be awarded using competitive means, providing the subcontract was a result of a teaming agreement known to the Government as inherent in the contractor's offer or reflected in the prime or higher tier subcontract prior to the subcontract or follow-on subcontract award. Such subcontracts are within the scope of the competition conducted for the prime or higher tier subcontractor on the basis that the competitor was the team and not just the team member chosen and accepted for the higher role. This concept is only relevant to the Government's interest in assuring adequate competition and would in no way alter the contractual or other legal relationships or relative liabilities among the contractor, subcontractors, and the government. This policy does not preclude the teaming agreement or related subcontracts from including provisions as to conditions that would free team members from any obligation to award subcontracts or to terminate existing ones with team members.

These details are considered necessary to correct a recurring perception that competition in Government procurements is limited to price competition. At the same time, it emphasizes that any other factors to be considered should be identified as source selection criteria. Thus, we would achieve the controlled application of best value if drafters of the source selection criteria are careful to identify those characteristics on which the competition will be based. In December 1992, Office of Federal Procurement Policy (OFPP) mandated the use of past performance information by Government agencies in all awards in excess of \$100,000, further supporting best value standards at the prime contract level (OFPP Policy Letter No. 92-5, 30 Dec 92).

Our objective is to motivate contractors to specify criteria for any best value awards. Having prompted contractors to that action, the best value awards are less likely to be challenged when approvals are required and when subcontract costs are reviewed and negotiated. The best value criteria need to have been identified to the competitors. Recent cases disclose that just referring to the intention to base an award on best value, without making it clear that there would be a cost-technical tradeoff, can result in successful protests.

Reviews shall always consider the degree of completion obtained, including price and other criteria, as appropriate to assure best value to the Government.

#### **A.7 Selection Process**

This selection process leading up to the selection of the best value supplier is essentially the same as would be used in developing the acquisition strategy for any procurement. It generally would proceed as follows:

(a) Once the requirement is identified, a market survey is normally conducted to determine the potential sources available to satisfy the requirements. Market surveys can be conducted in many ways, including the following:

- (1) Request for Proposals or Request for Quotations are issued;
- (2) Similarity of product comparisons;
- (3) Existing industry surveys;
- (4) Established market indexes; and,
- (5) Approved supplier list.

(b) While performing the market survey, various factors will be considered in determining the best acquisition approach. They include:

(1) The element of schedule. What is the time available to complete the procurements and meet the schedule for satisfying the requirement? This could very well impact the decision

as to whether to solicit the requirement on a competitive, or a sole/single source basis. Advanced planning should be accomplished to allow sufficient time to utilize competitive and non-competitive strategies.

(2) Long-Term Supplier Relationships. Is there an existing supplier agreement which would preclude the contractor's obtaining the requirement from other sources for technical reasons, financial investment of contractor, subcontractor, or both, or other extenuating circumstances that are documented?

(3) Supplier Rating Systems. Is the requirement available from sources that fall under the contractor's "supplier rating system" which would limit the number of sources that the contractor can, and should, consider?

(4) Socio-economic Considerations. Can this requirement be satisfied by a small or small disadvantaged or woman-owned supplier, or through a mentor-protege relationship, that would enhance contractor's small and small disadvantaged business performance?

(c) Upon completion of this market analysis, the contractor would then determine the most appropriate acquisition approach, competitive or non-competitive. The non-competitive approach could be either on a sole source basis or on a single source basis (there is more than one source that can fulfill the requirement, but a single source can be selected without obtaining formal offers from more than one source). Sole source and single source may, or may not, be a follow-on to a previous competitive procurement.

The selection of the acquisition approach should have as its major goal the selection of the supplier that will provide the best value to the Government. This decision will take into consideration various elements, including performance, cost, risk, enhanced product quality, socio-economic considerations, contractor costs, etc.

The contractor's purchasing system documentation should reflect the rationale for selection of the acquisition approach, supporting a decision that will arrive at selecting the source that provides the best value to the Government.

#### **A.8. Supplier Performance Rating System**

There is no universal supplier performance rating system and many different types of systems may be devised. Recognize that awards to suppliers based on price alone can be false economy if there is subsequent default, late deliveries, or other unsatisfactory performance which could result in additional purchasing and administrative costs and in schedule slippage. State in the report whether the contractor has or should have a supplier performance rating system and determine its effectiveness.

If the contractor uses a supplier performance rating system, it shall:

(a) Contain defined criteria;

- (b) Be consistently applied;

- (c) Be current, and,

- (d) Be auditable.

If a supplier performance rating system is used, state in the report:

- (a) Who evaluates supplier performance;

- (b) How it is used in selecting sources; and,

- (c) How suppliers have access to the certification process.

In addition to evaluating price, an effective supplier performance rating system typically:

- (a) Displays data for current experience as well as past performance history to allow trend analysis;

- (b) Considers quality among competing suppliers;

- (c) Develops quality ratings by considering quantitative values of suppliers' material rejection rates collected from multiple sources (operations, receiving, test operations, in process, and field activities);

- (d) Considers suppliers' ability to meet schedule, including deliveries that are too early and too late;

- (e) Evaluates technical capability and serviceability;

- (f) Evaluates suppliers' continuous improvement; and

- (g) Makes performance data available to:

- (1) The rated supplier;

- (2) The contractor's buyers; and,

- (3) The CPSR team members.

## **A.9 Long-term Agreements**

### **a. Definition**

Achieving best value may result in the establishment of a long term agreement with a

subcontractor. This relationship may be based on technical, financial, qualification costs, volume not warranting more than one supplier, or other justifiable reasons. The establishment of a long-term agreement with a supplier means that the contractor and subcontractor have entered into a relationship other than for a one contract/one part award. This agreement normally will be for more than one year and include documentation of the relationship with terms in addition to price. It may include consideration of follow-on orders, delivery and/or quality standards, lead time, and supplier/contractor life of program considerations.

b. Characteristics

The characteristics of a long term relationship will spell out the terms of agreement between the contractor and subcontractor in areas other than pricing. The agreement may include, but need not be limited to, any of the following:

- (1) Measures of productivity increases;
- (2) Quality measures and goals, e.g., parts per million;
- (3) Financial stability of the subcontractor
- (4) Measures related to on-time deliveries;
- (5) Contractor obligations;
- (6) Subcontractor's role in design engineering current products;
- (7) Time-related or annual pricing agreements for several part numbers versus a contract-part basis;
- (8) Commitment by the contractor to the subcontractor on exclusive supply of parts for a number of years or life of part;
- (9) Engineering design provided by the subcontractor; early supplier involvement, and technical capability;
- (10) Teaming relationships or partnerships;
- (11) Capital equipment supplied or cost shared, e.g., tooling;
- (12) Support for overhaul and repair of existing field units; and,
- (13) Overhaul/repair turnaround, financial arrangements, limit of contractor's work, etc.

c. Criteria

Each long-term agreement must be evaluated on its own terms and conditions. This should establish the criteria for determining the usefulness in measuring "best value". Criteria for evaluating long-term agreements may include:

(1) Considerations by both parties, e.g., tooling costs shared, engineering services provided at no charge, and training provided;

(2) How the parties relate and function, teaming or arm-length negotiations;

(3) Evaluation measurements communicated and explicitly stated in the agreement or supplemental documentation;

(4) Pricing for a fixed period of time, year, 18 months, etc., versus a part/contract ward;

(5) Terms of the agreement are applied consistently and prices are current and auditable within the contractor's existing systems; and,

(6) Provision for periodic testing of the market-place.

## APPENDIX B

### **EVALUATE CORRECTIVE ACTION PLAN (CAP)**

1. The CPSR report will be forwarded to the contracting officer (CO) without comment on the contractor's CAP. Upon receipt of the CAP from the contractor or through the CO, the CPSR team should evaluate it and provide comments to the CO by letter or Memorandum. In some instances, the CO may choose to perform the evaluation without CPSR team input.
2. When requested to do so by the CO, the CPSR team should evaluate the CAP for responsiveness to the team's recommendations, the appropriateness of the corrective actions, and the capability of meeting the designated milestones. The CPSR team may consult with appropriate technical specialists and the CO in making the evaluation. Adjustments may be made to the recommendations if considered necessary. If the CAP is determined to be unacceptable, it should be returned through the CO for reconsideration by the contractor. Any added recommendations should be forwarded to the contractor through the CO. Any additional contractor response, whether due to return of the CAP for reconsideration or to added recommendations, should be processed as above.
3. The CO should be requested to provide a copy of the letter to the contractor granting approval or withholding or withdrawing approval of the purchasing system.

## APPENDIX C

### **TYPICAL CONTENT OF CONTRACTOR POLICY, PROCEDURES AND FORMS**

1. Typical contractor policy and procedures include statements covering the following:

(1) Management of purchasing.

(i) Who has the authority to make commitments and to question quality and quantity of material requisitioned or received.

(ii) Assure that purchasing personnel are complying with applicable public laws and implementing Government regulations (e.g., Truth in Negotiations, Cost Accounting Standards).

(iii) Control and restriction of reciprocity (e.g., trade agreements, side agreements, etc.).

(iv) Purchasing file requirements.

(v) Control the use of nonstandard parts and components by subcontractors.

(vi) A make-or-buy program, including cost considerations as well as assessments of subcontract and in-house engineering, manufacturing, and quality assurance capabilities.

(vii) Use of ADPE systems in processing purchases.

(viii) Acceptance of gifts, gratuities and subcontractor kickbacks, and conflicts of interest.

(2) Development of purchase requirements.

(i) Timely preparation and appropriate review, approval, and transmission of an accurate and complete technical data package and purchase requisitions.

(ii) Reviewing requisitions to consolidate all requirements (Government and commercial) for the same or similar items - reviewing requirements against available stocks and surpluses.

(iii) Inventory control.

(iv) Transportation and packaging.

(v) Preparation, processing, and issuance of purchase orders.

(vi) Assuring that purchasing documents include appropriate source inspection requirements (prime contractor and Government).



(vii) Assuring flow down to purchase orders and subcontracts of applicable prime contract terms and conditions.

(viii) Variations in quantity.

(3) Selection sources.

(i) Developing and soliciting potential subcontractors.

(ii) Obtaining competition.

(iii) Controlling intra-company transactions with affiliates, subsidiaries, or parent company.

(iv) Requiring written justification of sole source purchasing.

(v) Assuring that the subcontractor's quality system complies with the prime contractor's quality assurance program requirements and product testing.

(vi) Preaward survey of prospective suppliers.

(vii) Complying with the small business and small and disadvantaged business subcontracting program contract clauses.

(viii) A vendor rating system and vendor cause histories.

(ix) Fully justifying purchases from suspended or debarred firms.

(4) Pricing.

(i) Cost or price analysis.

(ii) Timely furnishing of current supplier quotes and negotiated price data for use in proposal preparation.

(iii) Establishing and documenting negotiation objectives and their difference with the negotiated price.

(iv) Requiring written justification of second or subsequent best and final offers and split awards.

(v) Obtaining prompt payment discounts from subcontractors.

(vi) Effectively processing a high volume of low dollar value orders and calls against blanket orders and open-end subcontracts.

- (vii) Selecting the proper contract type.
- (viii) Selecting the proper contract type.

(ix) Controlling cost reimbursement, time and material, and labor-hour subcontracts.

(x) Consultant contracts or agreements.

(xi) Identification of bidders subject to Cost Accounting Standards and compliance with its contractual requirements.

(xii) Use of bidders debarred, suspended and proposed for debarment by the Federal Government.

(xiii) Obtaining subcontract certifications prior to award of subcontracts.

(5) Subcontract award and administration.

(i) ACO advance notification and consent.

(ii) Timely definitization of undefinitized actions (e.g., letter contracts) and changes.

(iii) Subcontractor reporting requirements for postaward management.

(iv) Maintaining visibility of subcontracts in the areas of cost, schedule, and performance.

(v) Monitoring progress payments to subcontractors.

(vi) Requiring subcontractors to identify and record nonconformance, determine cause of defects, implement timely corrective action, and provide appropriate notification.

(vii) Verifying subcontractors' control of calibration, measuring, and test equipment.

(viii) Controlling subcontractor acquisition of special tooling and test equipment.

(ix) Use of Government property.

(x) Receiving, inspecting, accepting, and returning material.

(xi) Adequate review and processing of terminations.

2. Purchasing Forms

(i) Are the contractor's various forms used for purchasing well prepared and consistent with written procedures, good business practices, and special needs of the Government?

(ii) Do personnel use these forms correctly and properly?

(iii) Does someone have responsibility for forms analysis to control for use and simplify records?

(iv) Are there forms for normal use?

(v) If the contractor uses purchase order forms to process interdivisional transfers, are the forms clearly identified as IDWAs (and not purchase orders to intraplant transfers) in order that they may be easily identified and audited by DCAA and company internal audit?

(vi) Are forms self explanatory?

(vii) Are there any forms which duplicate each other?

(viii) Can different forms be combined (i.e., PO and receiving reports) to eliminate unnecessary ones?

(ix) Does Receiving retain receiving reports for excessive periods of time before notifying purchasing?

## APPENDIX D

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## APPENDIX E

### **SUBCONTRACT FLOWDOWN CLAUSES**

1. There is no direct contractual relationship or "privity of contract" between the Government and the subcontractor. The Uniform Commercial Code and State law is usually applied to resolve any subcontract disputes, in lieu of FAR Part 33, Disputes and Appeals. The Government has a great deal of control over subcontractors through FAR 44.3 which requires the procurement system review and FAR 44.202-2(a) which sets forth the Government's requirement and criteria for prior approval by the Government contracting officer of specific subcontracts. The Government's requirement that many individual contract clauses be flowed down by the prime to the sub, and the Government's socio-economic policy decisions to encourage subcontracting with favored groups such as minority, small, and women-owned businesses are also set forth in FAR 44.202-2(a).
2. Basically, there are three categories of Federal Acquisition Regulations (FAR) subcontract flow down clauses: mandatory, non-mandatory but necessary, and negotiable clauses. An integral part of the CPSR is a compliance review of the purchase order/subcontract flow down clauses. The procurement analysts' focus will be on the mandatory flow down clauses. The ideal situation would provide for a review of the subcontract flow down clauses by the cognizant legal counsel prior to the in-plant visit by the CPSR procurement analysts. An alternative approach is to obtain a detailed matrix of the mandatory flow down clauses from legal counsel for the CPSR team to use in its review. To assure current and accurate information is available to the CPSR team, the matrix should be evaluated by the cognizant legal office at least every six months. A quick reference matrix for these clauses is provided at FAR Subpart 52.3.
3. When a specific clause is required to be included in a prime contract, the contracting officer must include it or obtain a formal authorization to deviate from the regulations. Should a required clause be omitted inadvertently or deliberately by the contracting officer (without the deviation authorization), the legal result may be that the clause is deemed to have been included as though it had been written into the contract. This rule is called the Christian Doctrine. It may not apply to subcontracts. The courts have not to this date and enforced a FAR clause on a subcontract when the prime has neglected to include it or improperly agreed to leave it out. This would effectively place the burden on the prime contractor to know what clauses the contracting officer should be including in the prime contract; therefore, the responsibility for producing accurate and completely supporting subcontracts lies with the prime contractor and not the contracting officer.
4. Failure by the prime contractor to comply with some specific mandatory flow down clauses, can result in serious legal ramifications. Examples of this include failure to obtain consent under FAR 52.244-1, -2 and -3. Partial termination of contract for default could be the legal result. Failure to comply with the subcontracting plan requirements under Public Law 95-507 can result in a material breach of contract.
5. The review of subcontract flow down clauses for foreign contractors is less straight forward

than the review for a CONUS contractor. It will usually entail actual review of the prime contract terms and conditions to ascertain which clauses included in the prime contract should be flowed down to the subcontractor. Another factor to consider is whether the subcontractor is a foreign concern or a U. S. company. For example, under certain circumstances, socio-economic flow down clauses are unenforceable on foreign subcontractors. The following matrix is a guide for the review of the flow down subcontract clauses at foreign contractors:

<u>Clause</u>	<b><u>Foreign Contractor Subcontracting with U.S. Subcontractor</u></b>	<b><u>Foreign Contractor Subcontracting with Foreign Subcontractor</u></b>
FAR 52.222-21(c)	Applicable	Not Applicable (1)
FAR 52.222-26	Solicitations Only	Solicitations Only
FAR 52.222-25	Applicable	Not Applicable (2)
FAR 52.209-6(b)	Applicable	Applicable
FAR 52.215-2	Applicable	Applicable
FAR 52.203-11(b)(3)	Applicable	Applicable
FAR 52.223-1	Applicable	Applicable
FAR 52.223-2(b)(4)	Applicable	Not Applicable
DFARS 252.225-7026	Applicable	Applicable
FAR 52.219(d)(9)	Applicable	Not Applicable
FAR 52.220-4(c)	Applicable	Not Applicable
FAR 52.230-2(d)	Applicable (3)	Applicable (3)
FAR 52.230-3(d)	Applicable(3)	Applicable (3)
FAR 52.230-5(e)(1)	Applicable(3)	Applicable (3)
FAR 52.230-1	Applicable (3)	Applicable(3)
FAR 52.230-5(e)(2)	Applicable (3)	Applicable (3)
FAR 52.222-28	Applicable	Not Applicable (4)

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(1) If the foreign company recruits workers in the U.S., it must comply, see FAR 22.805(a)(3).

(2) The foreign company is exempt, but the clause should still be included in the subcontract, see FAR 22.805(a)(3).

(3) Foreign companies must only comply with CAS 410 & 402, 48 CFR 9903.21-1(b)(4), unless the contract is executed and performed entirely outside the U.S., in which case the contract is entirely exempt, 48 CFR 9903.201-1(b)(14). However, subcontracts awarded to U.S. business units require the same degree of CAS coverage that would apply if the subcontracts awarded to U. S. business units require the same degree of CAS coverage that would apply if the subcontract were a prime contract, 48 CFR 9903.201-2(d). Finally, prime and subcontracts awarded to firms in the United Kingdom which are substantially performed in the United Kingdom are exempt provided that the company currently discloses accounting practices to the United Kingdom Ministry of Defense.

6. The purpose flow down of the DPAS rating from the prime contractor to the subcontractor is

another attribute that is reviewed during the CPSR. This requirements was created by statute and is implemented under regulations published by the Department of Commerce and codified at 15 CFR 700 et.seq. The FAR address the DPAS system at subpart 12.3.

7. The DPAS regulations are coded either DO or DX. A DX rating has precedence over a DO rating, and a rated order has precedence over an unrated order in terms of delivery. It is usually the responsibility of the production specialist member of the CPSR team to inform the CPSR team captain that the contractor under review is flowing down the correct DPAS rating. However, outside the U.S. the DPAS regulation is legally ineffective. Although a U.S. contractor could place a rated order with a foreign subcontract, the foreign supplier has no legal obligation to comply. A foreign company can invoke the DPAS system if they apply for such authority from the Department of Defense (DoD) and their request is sponsored by their own government. If DoD concurs, it must endorse the request and turn it over to the Department of Commerce for their final approval. Upon approval, the DPAS rating can be used with legal effect on companies within the United States only.

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1. Source for the text on flow down clauses for this appendix primarily is excerpted from the November 1993 Contract Management article, "Flow-Down Clauses in Subcontracts" by Leslee A. Ellenson.
2. Source for the flow down clause matrix related to foreign contractors is an interoffice memorandum written by DCMDN legal counsel on 28 November 1994.
3. Source for the DPAS flow down requirements is excerpted from an interoffice memorandum written by DCMDN legal counsel on 22 November 1994.

## APPENDIX F

### **SUPPORT FUNCTIONS**

1. Performance of Contractor Purchasing System Reviews (CPSRs) is the responsibility of certain designated DCMC CAOs. Such CAOs have a CPSR element consisting of a CPSR team leader and one or more purchasing system analysts (PSAs). The number of PSAs assigned to a CAO is dependent on the CPSR workload. Although the PSA is a subject matter expert, support from other functional areas is required in performing a CPSR. This appendix discusses the support functions required to perform a CPSR.
2. In performing an initial CPSR, assistance from all of the listed support functions is required in order to present a complete picture of the contractor's purchasing system in the initial CPSR report. Thereafter, there may not be a need for all of the listed support functions. It is not necessary to duplicate in the CPSR reports, information routinely provided to the contracting officers by other reporting means. Giving consideration to the results of the risk assessment and type of review planned, the CPSR team captain will determine the support functions required. Decisions not to include a support function should be coordinated with the contracting officer. Examples of recommended letters requesting support are included at Appendix G.
3. The initial arrangement for a CPSR are made through contracting officer (CO). Preliminary statistics and other data required to plan the CPSR are obtained from the contractor through the CO. Recommendations to the contractor are made through the CO. Copies of the CPSR reports are distributed by the CO to the contractor and buying activities. The CO is the single most important person in the contract management arena and is the focal point for all matters pertaining to the contractor.
4. An engineer is asked to review, evaluate, and comments on the contractor's policies, procedures, and practices in the areas of standardization, value analysis, and make-or-buy programs. In addition, the engineer is given a number of single/sole source purchase order/subcontract files for review of supporting engineering data, drawings, etc., and is asked to evaluate and comment on the validity of the contractor's single/sole source justification.
5. A packaging specialist is asked to review, evaluate, and comment on the contractor's packaging function relative to packaging of incoming materials and the acquisition of packaging materials.
6. A quality assurance specialist is asked to review, evaluate, and comment on the contractor's policies, procedures, and practices in the following areas:
  - a. Contractor's quality assurance program;
  - b. Inclusion of the proper quality requirements on purchase requisitions;



- c. Inclusion of the proper quality requirements on purchase orders;
  - d. Quality assurance actions pertaining to receipt of incoming materials; and,
  - e. Rating of suppliers' quality performance.
7. A small business specialist is asked to review, evaluate, and comment on the contractor's policies, procedures, and practices pertaining to the contractor's award of purchase orders and subcontracts to small and small disadvantaged businesses.
8. A transportation specialist is asked to review, evaluate, and comment on the contractor's policies, procedures, and practices in the following areas:
- a. Routing guide for use by buyers and/or suppliers;
  - b. Use of premium transportation for incoming materials;
  - c. Review/audit of freight bills and recovery of excess freight charges; and,
9. The Defense Contract Audit Agency is asked to review, evaluate, and comment on the contractor's policies, procedures, and practices in the areas of inter/intra-company transactions, purchase discounts, material cost estimating and budget control, and progress payments

## APPENDIX H

### **ACRONYMS/DEFINITIONS**

#### **ACRONYMS**

##### **A**

A&E Architect and Engineer  
ACO Administrative Contracting Officer  
ADPE Automated Data Processing Equipment

##### **B**

BOA Blanket Ordering Agreement  
BOM Bill of Material

##### **C**

CACO Corporate Administration Contracting Officer  
CAO Contract Administration Office  
CAP Corrective Action Plan  
CAS Cost Accounting Standards; Contract Administration Services  
CEO Chief Executive Officer  
CFM Contractor Furnished Material  
CICA Competition in Contracting Act  
CO Contracting Officer  
CPFF Cost Plus Fixed Fee  
CPSR Contractor Purchasing System Review  
CRAG Contractor Risk Assessment Guide

##### **D**

DCAA Defense Contract Audit Agency  
DCE Defense Corporate Executive  
DCMC Defense Contract Management Command  
DFARS Defense Federal Acquisition Regulation Supplement  
DIPEC Defense Industrial Plant Equipment Center  
DLA Defense Logistics Agency  
DoD Department of Defense  
DPAS Defense Priorities and Allocation System

## E

EVMS Earned Value Management System (formerly C/SCSC)

## F

FOB Freight on Board

FFP Firm Fixed Price

## G

G&A General and Administrative

GAO General Accounting Office

GFM Government Furnished Material

GSA General Services Administration

## I

IDWA Interdivisional Work Authorization

IG Inspector General

## L

LH Labor Hours

## M

MIL-STD Military Standard

MIS Management Information System

MMAS Material Management and Accounting System

MRB Material Review Board

## N

NTE Not to Exceed

## P

PAR Performance Assessment Review

PCO Procuring Contracting Officer

PCSR Prime Control of Subcontractor Reviews

P.L. Public Law

PO Purchase Order

POC Point of Contract

PROCAS Process Oriented Contract Administration

PSA Purchasing System Analyst

## Q

QA Quality Assurance

## R

R&D Research and Development

RFP Request for Proposal

RFQ Request for Quotation

## S

SA Subcontract Administrator

SADBU Small and Disadvantaged Business Utilization Program

SF Standard Form

SOW Statement of Work

ST/STE Special Tooling/Special Test Equipment

STE Special Test Equipment

## T

Ts & Cs Terms and Conditions

TCO Termination Contracting Officer

TINA Truth-In-Negotiations Act

TM Time and Material

## U

UCC Uniform Commercial Code

## **DEFINITIONS**

### B

Best Value Contracting - Any basis for award where factors in addition to cost or price will be considered in some relative order of importance.

## C

Contract Administration Office (CAO) - The activity identified in the DoD Directory of Contract Administration Services Components assigned to perform contract administration responsibilities. It is a general term which includes what were formerly called Defense Contract Management Area Operations (DCMAOs) and Defense Plant Representative Offices (DPROs).

Contract Administration Services (CAS) - All those actions accomplished in or near a contractor's facility for the benefit of the Government, which are necessary to the performance of a contract or in support of the buying offices, system/project managers, and other organizations, including: quality assurance, engineering support, production surveillance, preaward surveys, mobilization planning, contractor administration, property administration, industrial security, and safety.

Contracting Officer (CO) - A person with the authority to enter into, administer, or terminate contracts and make related determinations and findings. The term includes any authorized representatives of the CO acting within the limits of their authority. A CO whose primary responsibility is to enter into contracts is a Procuring Contracting Officer. One whose primary responsibility is to administer contracts is an Administrative Contracting Officer. One whose primary responsibility is to terminate contracts and/or settle terminated contracts is a Termination Contracting Officer. A single contracting office may be responsible for duties in any or all of these areas.

Contractor - Refers to a separate entity of a Contractor, such as an affiliate, division, plant, or facility which performs its own purchasing.

Cost Accounting Standards (CAS) - Public Law 100-679 and/or 91-379

Cost or Pricing Data - Used by contractor to respond to an RFP from Government. The Truth-In-Negotiations Act (TINA) requires the contractor to certify that the data is accurate, current and complete as of the date the contractor and the Government agreed on a price.

## D

Defense Contract Management Area Office (DCMAO) - The former name given a contract administration office assigned responsibility for administering contracts for all contractors in a geographic area.

Defense Plant Representative Office (DPRO) - The former name given a contract administration office assigned responsibility for administering contracts for one contractor. DPROs were located in contractor's plants.

## P

Prime Contractor - A contractor having responsibility for design control and delivery of a service, system or equipment such as aircraft, engines, ships, tanks, vehicles, guns and missiles, ground communications and electronic systems, ground support equipment, and test equipment.

## R

Risk Assessment - The process of subjectively determining the probability that a specific interplay of performance, schedule, and cost as an objective, will or will not be attained along the planned course of action.

## S

Subcontract - A contract below a prime contract.

Subcontractor - A contractor who enters into a contract with a prime contractor or higher tier subcontractor.

Surveillance - When a contractor's purchasing system has been approved, it is the responsibility of the Contracting Officer to maintain a sufficient level of surveillance to assure that the contractor's purchasing system continues to warrant approval

## T

Team Captain - Procurement System Analyst responsible for the performance and completion of the review and preparation of the report.

Teaming Agreement - An agreement of two or more firms to form a partnership or joint venture to act as a potential principal contractor; or, an agreement by a potential prime contractor to act as a subcontractor under a specified acquisition program; or, an agreement for a joint proposal resulting from a normal prime contractor-subcontractor licensee-licenser or leader.

## APPENDIX I

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